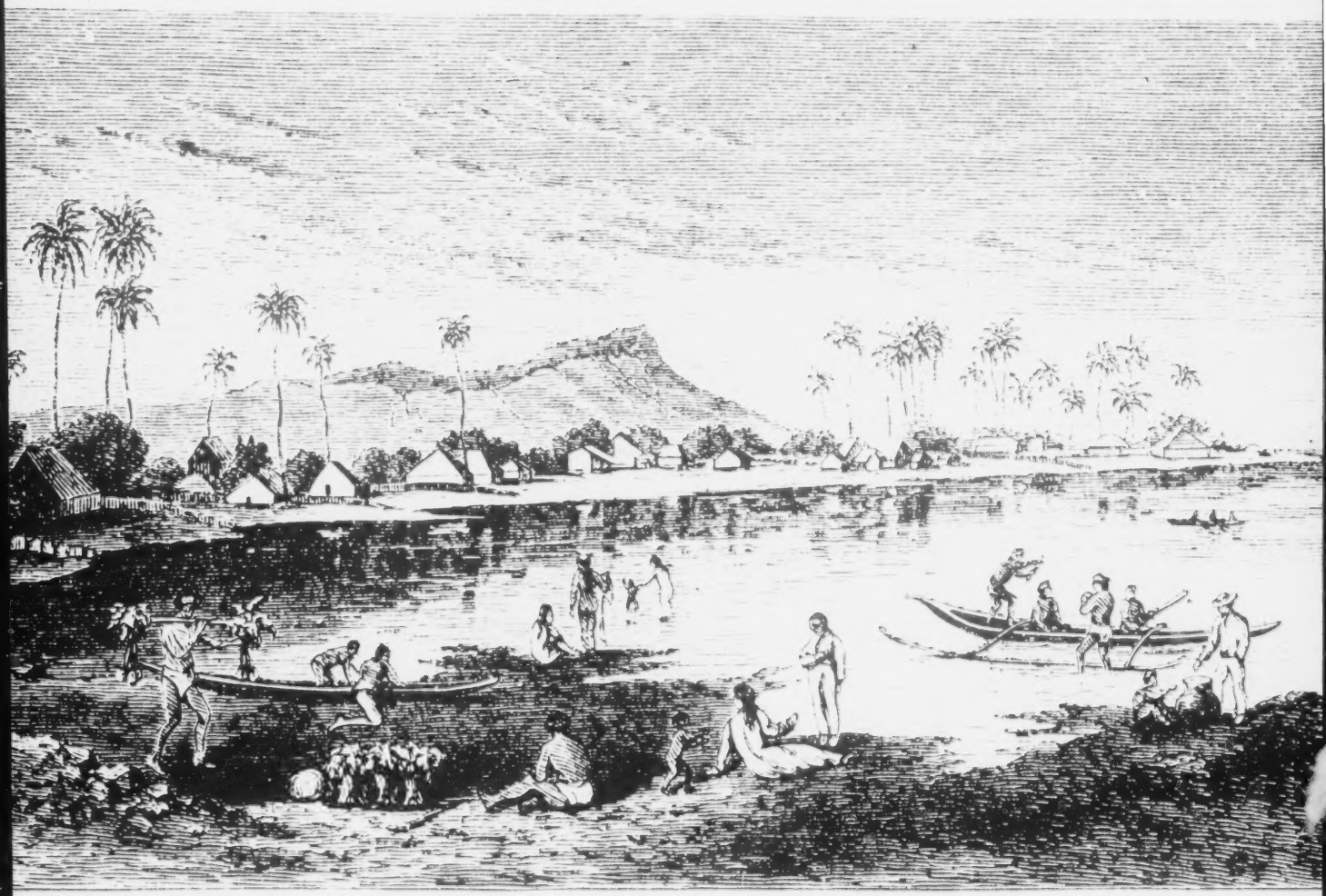
S 2120-1 u (A)

Annual Report
1979-1980



Department of Taxation
State of Hawaii

COVER: Old print of Diamond Head & Waikiki.

GEORGE R. ARIYOSHI
GOVERNOR

GEORGE FREITAS
DIRECTOR OF TAXATION

[redacted]
DEPUTY DIRECTOR

DEPARTMENT OF TAXATION

STATE OF HAWAII

Honolulu, Hawaii
April 1, 1981

The Honorable George R. Ariyoshi
Governor of Hawaii
State of Hawaii

Dear Governor Ariyoshi:

Once again I have the very satisfying task of submitting to you the Department of Taxation's annual report. This, my second report as your Director of Taxation, presents the growth in tax collections and the objectives and accomplishments during the fiscal year ending June 30, 1980.

The total tax collections passed the $1.2 billion mark for an increase of 11.3 percent over fiscal 1978-79. General fund tax collections exceeded the $900 million mark for an increase of 14.7 percent.

During the past year, the Department has continued its efforts to provide fair and equal treatment for all taxpayers. While there is always room for improvement, great strides have been made in this area. The Department has issued Tax Information Releases to better inform taxpayers of changes in the tax laws and has encouraged public input. Both have increased the overall effectiveness of our tax system.

We are encouraged by our beginning phases of a tax management system which will enhance our capability to serve the taxpayers of Hawaii. The first phase of this project will be completed early 1981 and will enable us to more efficiently service the general excise and withholding taxpayers.

I appreciate the hard work of so many of our employees — the career civil servants, the temporary helpers during the tax season, the Attorney General's Office, and my appointees — without whom it would not have been possible to meet our goals and to respond quickly to the many legislative and public requests for information and research.

Respectfully submitted,

George Freitas

GEORGE FREITAS
Director of Taxation

TABLE OF CONTENTS

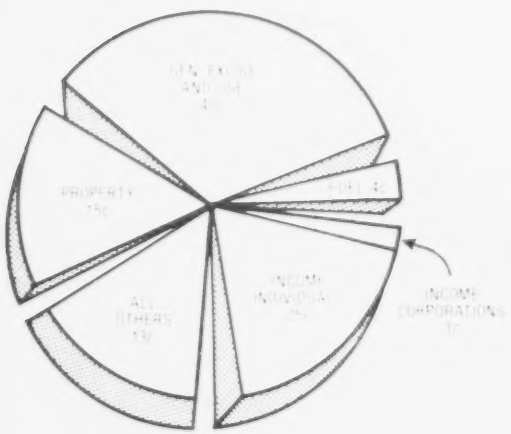
	Page
LETTER OF TRANSMITTAL TO THE GOVERNOR	1
BRIEF SUMMARY OF HAWAII'S TAX SYSTEM	5
ORGANIZATION CHART	10
ADMINISTRATIVE STAFF	11
DISTRICT OFFICES	12
THE YEAR IN REVIEW	14
Administration	14
General Excise and Use Tax System	14
Real Property Program	15
Natural Disaster	15
Public Relations and Information	15
Research and Planning	15
Personnel Management	16
Tax Litigation	16
Boards of Review	16
Tax Appeal Court	17
Circuit Court	18
Legislation	18
Income Assessment and Audit	19
Individual Income Tax	19
Corporate Income Tax	21
General Excise and Use Taxes	22
Inheritance and Estate Taxes	22
Public Service Company Tax	22
Fuel Taxes	24
Other Taxes	26
Compliance	27
Real Property Assessment	28
Net Assessed Valuation	28
Home Exemptions	29
Number of Parcels	30
Collection and Accounting of Taxes	30
Tax Collections and Distribution	30
Delinquent Taxes	32
Cost of Administration	33
APPENDIX	A-1

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

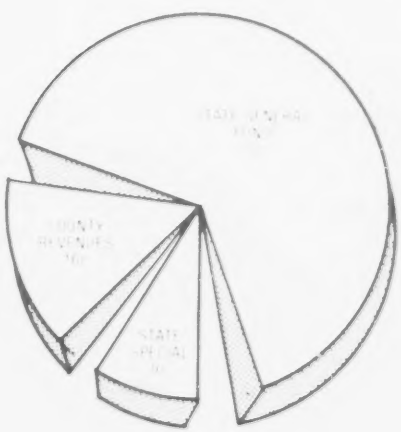
The outstanding characteristics of Hawaii's tax structure are the high degree of centralization at the state level of government and the comprehensive utilization of revenue sources. Although relying heavily on the general excise tax, the overall structure has been made progressive through the effective use of the graduated individual income tax and of income tax credits. These credits have been in existence since 1965 in one form or another to provide relief to low-income taxpayers from the ever-increasing tax burden. Over the years, changes were made to simplify both the filing process and the administration of the tax credits. Under the present law, there is an exemption credit which may be claimed by resident taxpayers with adjusted gross income under $20,000, if they are not eligible to be claimed as a dependent by another taxpayer. Beginning in taxable year 1980, this credit ranges from $48 per qualified exemption for those with adjusted gross income under $5,000 to $8 for those with adjusted gross income of $14,000-$19,999, with a double credit allowed for those age 65 and over. In addition, there are four other tax credits which may be claimed by eligible taxpayers — renter's credit, child care credit, solar device credit, and heater insulation credit.

Hawaii has fifteen separate tax laws of which thirteen are administered by the State. The remaining two are administered by the counties. Revenues from ten of these taxes are realizations to the state general fund used to provide government services, including the educational system which is a state function in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The real property tax law is also administered by the state, but the revenue from this source accrues to the counties, except for that portion which is retained by the state for the cost of administering the real property tax law. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers. Administration of the state and county motor vehicle weight taxes is vested in the counties with the revenue accruing to the state and county highway funds.

SOURCE OF THE TAX DOLLAR
1979-1980



DISTRIBUTION OF THE TAX DOLLAR
1979-1980



STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4%; with the rate on producing, manufacturing, and wholesaling at 1/2 of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of 1/2 of 1%; otherwise, the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) disallowance of the $100 dividend exclusion allowed by the federal. The applicable tax rates are covered in the "Outline of Hawaii Tax System" in the Appendix of this report.

INHERITANCE AND ESTATE TAXES: These are taxes on the transfer of property at the time of death. In determining the amount of inheritance tax, the law provides certain exemptions and rates, depending on the relationship of beneficiary to the decedent. The 1977 State Legislature liberalized the exemptions and modified the tax rates, effective for estates of those dying after December 31, 1977. The exemption for a spouse was increased from $20,000 to $100,000; for a direct line beneficiary from $5,000 to $50,000; and for all other beneficiaries from $500 to $5,000. In addition to the inheritance tax, Hawaii also has an estate tax which is a residual tax and picks up the difference, if any, between the maximum credit allowed under the federal estate tax law and the amount of the state inheritance tax.

LIQUOR AND TOBACCO TAXES: These are ad valorem taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis with rates depending on the alcoholic content and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for airlines, motor carrier and contract carrier business is 4% of gross income. However, airlines may pay at the rate of

3. if they adopt a fare schedule that is less than one half of the regular adult fare for students in grades 12 or below traveling in school groups.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775% of 1%, and other insurance — domestic, 2.9647% and foreign, 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during calendar 1979 and thereafter.

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other document transferring ownership or interest in any land, tenement, or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

Chart 1 shows the trend in general fund revenues for the past ten years.

COUNTY GENERAL FUND

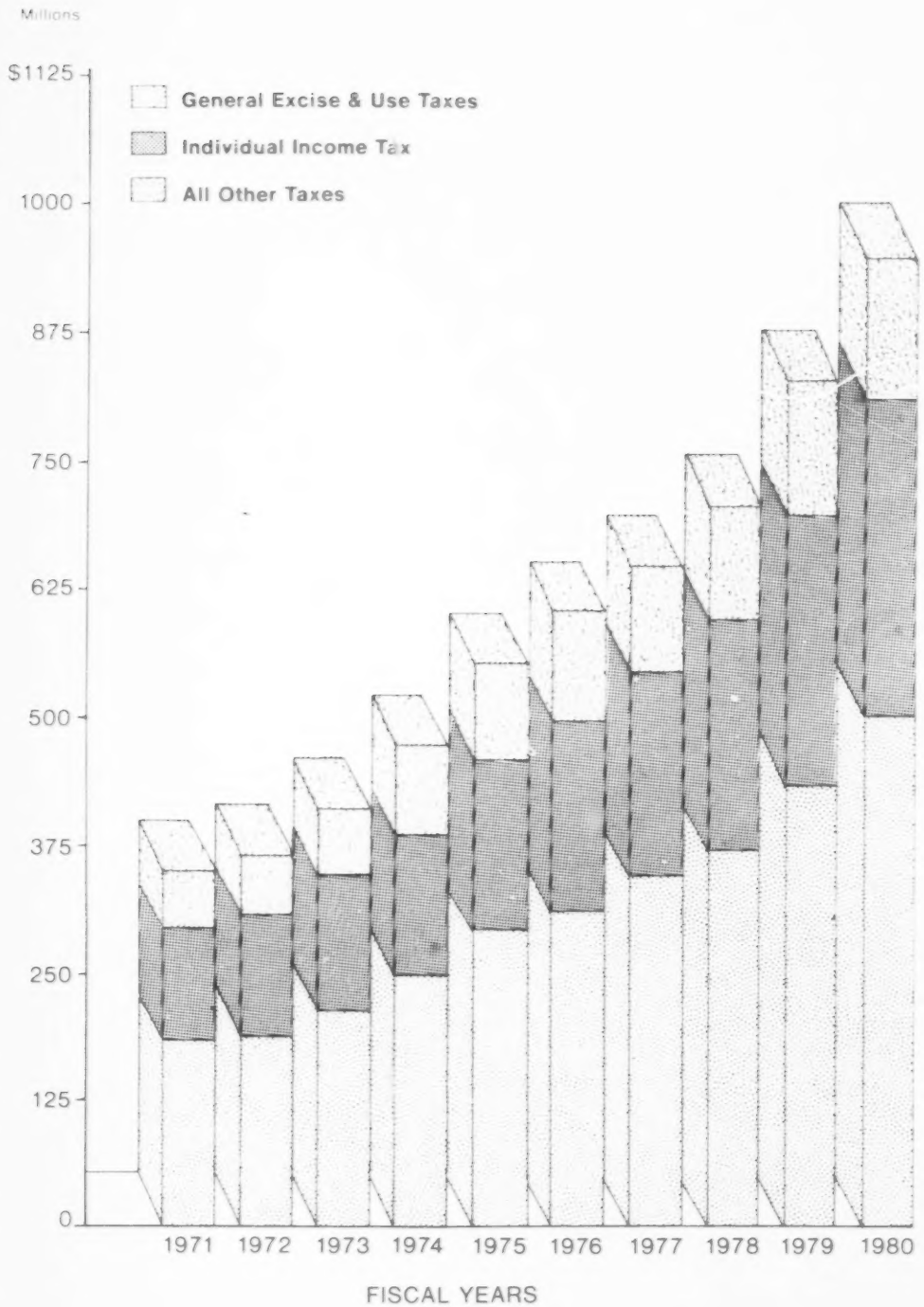
REAL PROPERTY: The state is responsible for the appraisal of all real property and the collection of the tax. The Director of Taxation establishes the net assessed valuation for tax rate purposes annually for each county and at the same time certifies the tax rate for each category of real property which would produce an amount of real property tax revenue equal to the amount for the current year. However, the County Council may increase or decrease the tax rates, after holding hearings and adopting a resolution fixing the tax rates. All revenue collected by the state is turned over to the respective county government, except for that portion which is retained by the state for the cost of assessing and collecting the taxes the preceding year. All of the real property functions will be turned over to the Counties beginning July 1, 1981, as mandated by the 1978 Constitutional Convention.

Real property owned by the federal government and by the state and county governments is fully exempt from this tax, as is property owned by public utilities. A minimum tax of $7 is applicable for all other exempt properties. Homeowners are also entitled to claim an exemption of $12,000 on real property owned and occupied as a home. Homeowners age 60-69 may claim a multiple exemption of $24,000, while those 70 and over are eligible to claim up to $30,000.

There are seven land use classes: Improved residential, hotel/apartment, commercial, industrial, agricultural, conservation, and unimproved residential. The law requires separate assessments and rates for land and improvement within each class, except the improved residential, agricultural, and conservation classes, where land and improvements are taxed at the same rate. This provision of the law was amended by the 1977 Leislature, providing for the gradual phasing out of the differential tax rates so that by 1980 all land and improvements will be subject to the same tax rate. This single tax rate is applicable for fiscal 1980-81.

CHART 1

TRENDS IN GENERAL FUND TAX REVENUE, BY SOURCE
Fiscal Years 1971 through 1980



OTHER TAXES: The counties assess and collect the motor vehicle weight tax and the public utility franchise tax. In addition, they are authorized to levy certain local licenses and permit fees.

SPECIAL PURPOSE TAXES

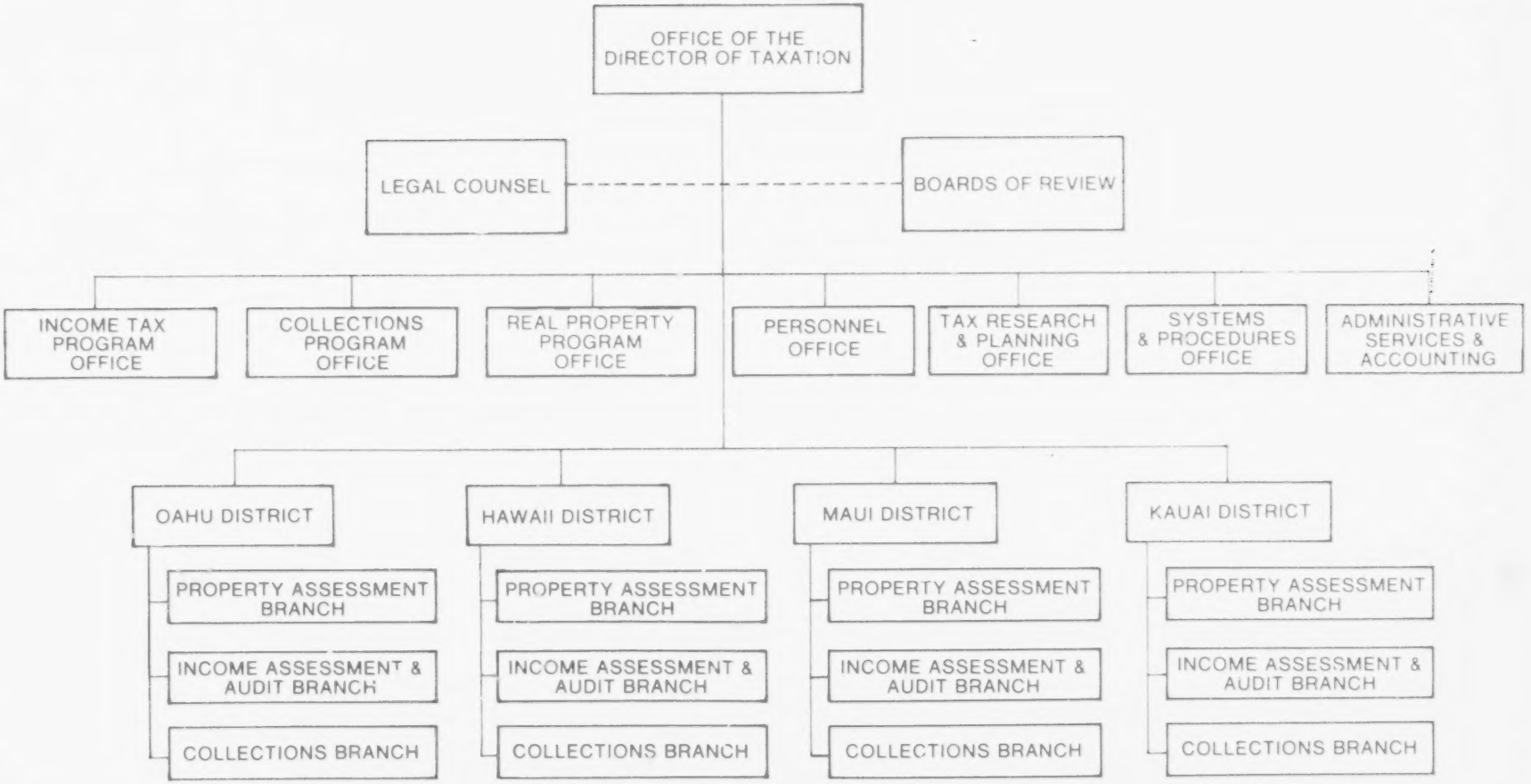
FUEL TAX: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the Council of each county; state rates are established by the State Legislature. Revenue from this source goes into state and county special funds for use in the construction and maintenance of highways, roads, and airports.

The county rates on gasoline and diesel oil used on the highways which were in effect for this year are: 6 1/2¢ for the City and County of Honolulu, 5¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 8 1/2¢ for all gasoline usages and diesel oil used on the highways, and 1¢ for diesel and liquefied petroleum gas used off highway. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for anti-pollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. For calendar year 1979, a variable tax rate ranging from 1.8% to 4.5% based on the employer's past employment record was in effect. For calendar 1980, the minimum rate was reduced to 1.0%. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

ORGANIZATION CHART

Department of Taxation
State of Hawaii



STATE OF HAWAII
DEPARTMENT OF TAXATION

ADMINISTRATIVE STAFF

OFFICE OF THE DIRECTOR

Director of Taxation ..... George Freitas
Deputy Director of Taxation ..... Wallace Aoki[1]

HEADQUARTERS STAFF

Income Program Officer ..... Tomotaru Ogai
Real Property Program Officer ..... Edwin Ferreira
Tax Collection Program Officer ..... Robert Hee
Tax Research and Planning Officer ..... Richard W. Swanson
Tax Systems & Procedures Officer ..... Kenneth Murayama
Administrative Services & Accounting Officer ..... Gilbert Chang
Departmental Personnel Officer ..... Herbert Chun

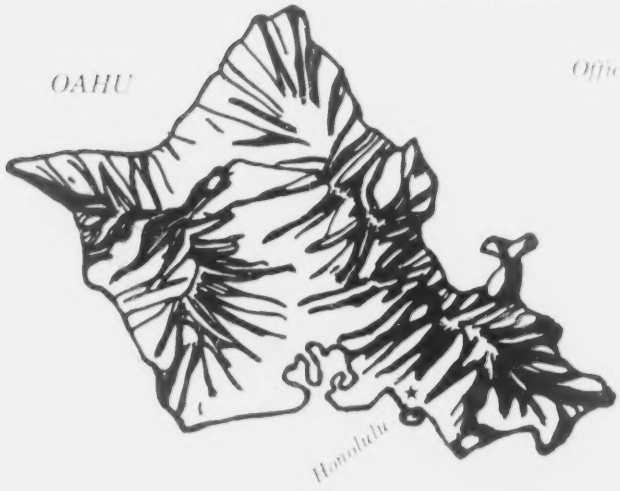
OPERATIONS STAFF

District Tax Administrator, Oahu District Office ..... Herbert Dias[2]
District Tax Administrator, Maui District Office ..... Isao Sato
District Tax Administrator, Hawaii District Office ..... Sanford Yanagi
District Tax Administrator, Kauai District Office ..... Thomas Nishimitsu

[1] *Effective September 4, 1979*
[2] *Effective August 6, 1979*

FIRST TAXATION DISTRICT

Island of Oahu



Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

District Tax Administrator
Herbert Dias

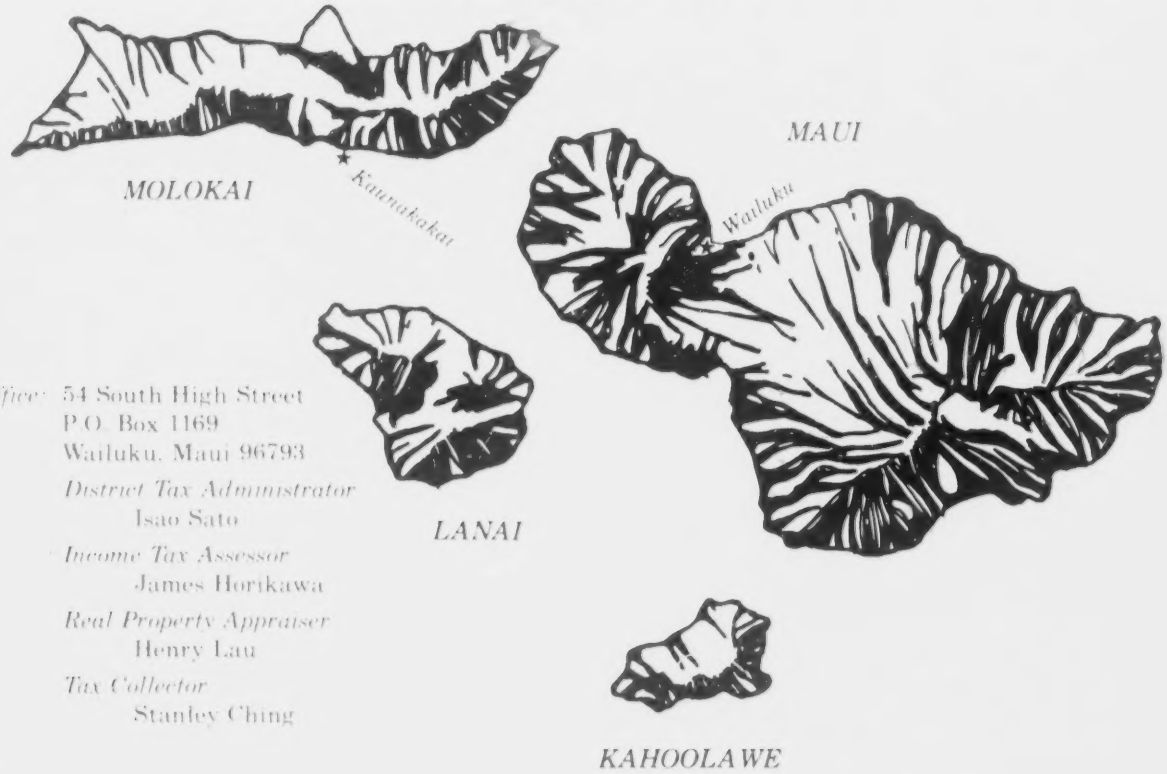
Income Tax Assessor
David Miyahira

Real Property Appraiser
Clement Young

Tax Collector
Harold Yamane

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

District Tax Administrator
Isao Sato

Income Tax Assessor
James Horikawa

Real Property Appraiser
Henry Lau

Tax Collector
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96720

District Tax Administrator
Sanford Yanagi

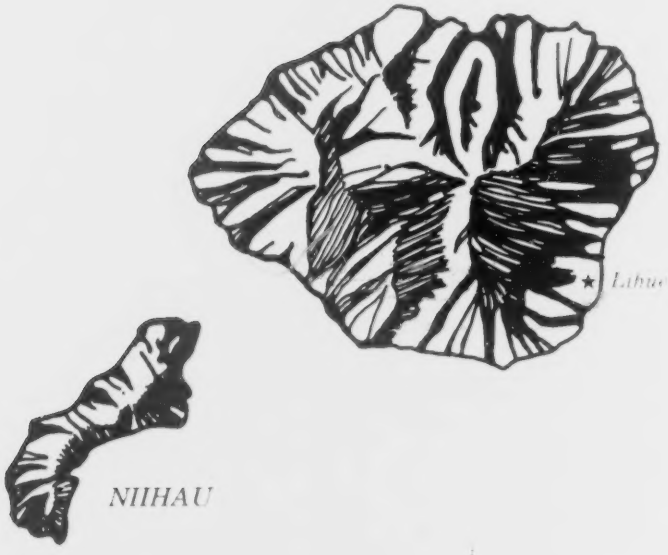
Income Tax Assessor
Ronald T. Yabe

Real Property Appraiser
Gary Kiyota

Tax Collector
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

District Tax Administrator
Thomas Nishimitsu

Income Tax Assessor
Ernest Balderas

Real Property Appraiser
Reginald Gage

Tax Collector
Helen Teraoka

THE YEAR IN REVIEW

ADMINISTRATION

The Department has been actively engaged in developing more efficient and effective procedures to better serve Hawaii's taxpayers. Towards this end, several committees were established to assist in the redesign of the general excise and withholding system, to review the Department's organizational structure, and to identify programs within the Department for future automation.

An in-house study recommended that the Department seek outside help in redesigning of the general excise and withholding system. As a result, the firm of Deloitte, Haskins & Sells was selected after a competitive bid process. To assist Deloitte, Haskins & Sells in the redesign, several committees were established to make sure that all of the Department's needs were made known. These committees were the User Group, which represented all of the various users of the general excise and withholding system; a Peer Group, which represented management; and a Technical Group, which looked at the redesign from a systems and data processing point of view.

A Reorganization Committee was established because the Department needed to be reorganized as a result of the transfer of the real property program to the Counties effective July 1, 1981. In addition, changes to the present organizational structure will be needed as a result of the redesign of the general excise and withholding system.

The third area for improvement was to identify other programs within the Department needing automation and to determine timetables for implementation. A Future Automation Systems Group was established for this purpose.

In January 1980, the first issue of the Communicator, a Departmental newsletter was published. The Communicator will be published quarterly and will keep Tax Office employees and Tax Practitioners throughout the State informed of events and changes taking place within the Department.

In other developments, Mr. Herbert Dias was appointed Oahu District Tax Administrator on August 6, 1979. This position was previously held by Mr. George Freitas, who was appointed Tax Director on December 28, 1978.

GENERAL EXCISE AND USE TAX SYSTEM

The firm of Deloitte, Haskins & Sells was retained to assist the Department in redesigning the general excise and withholding (GEW) tax system. Phase I of this study, which analyzed the existing operational system and made recommendations for improvement, was completed in April 1980.

The study identified problems in five major areas: operational procedures, physical considerations, forms design and usage, policy considerations, and systems design. Problems in the operational procedures area were related to internal control and the duplication of effort. Physical considerations centered around sequential processing functions being physically separated which resulted in inefficiency. In addition, there were inadequate space and equipment for performing some of the processing functions. Tax forms were difficult for the taxpayer to understand and contained insufficient information to verify the accuracy of the tax liability. Policy considerations revolved around the lack of communication and cooperation affecting certain sections within the Department. Finally, certain design features of the existing GEW System were lacking or inefficient.

Recommendations to improve the overall GEW System were made and Deloitte, Haskins & Sells was also retained to implement an improved system that would be operational in early 1981.

REAL PROPERTY PROGRAM

As mandated by the 1978 Constitutional Convention, the real property program is to be transferred to the Counties beginning July 1, 1981. In order to achieve a smooth transfer, managers of the four real property offices have been working with officials from the four counties. The Real Property Program Office has been drafting tax ordinances, revising rules and regulations and technical memorandums to conform to County requirements. This initial groundwork should ensure a smooth transfer next July.

All condominium building records were recoded so that current assessment values could be updated by using computers.

NATURAL DISASTER

Tax relief amounting to $625,310 was processed for 44 claimants on the islands of Hawaii and Maui who suffered losses from the 1977-78 drought disaster. Relief totaling $542,276 was granted to 38 claimants from the island of Hawaii, while six claimants from the island of Maui received $83,034. Of the 38 claimants on the island of Hawaii, 12 have exhausted their tax credits and another is no longer in business. Of the six claimants on Maui, only one has exhausted his tax credits.

PUBLIC RELATIONS AND INFORMATION

During the peak filing period, the Department continued its special taxpayer assistance program to assist taxpayers in filing their income tax returns. Augmenting the counter service was the telephone service, manned by tax auditors, for those who preferred to make inquiries by phone.

Rules and regulations, as well as tax information releases, were prepared and disseminated by the technical offices to apprise taxpayers of changes in the tax laws. The news media were utilized for publicizing filing deadlines and payment due dates.

TAX RESEARCH AND PLANNING

General fund tax revenue projections for fiscal 1979-80 forecast a growth rate of 11.6 percent over fiscal 1979; however, actual collections grew by 14.7 percent. The primary reason for the difference was that inflation was underestimated. General fund revenue projections are estimated by a statistical model which uses several economic indicators, of which the inflation rate and the tourism growth rate are the key ones.

Litigation was initiated by several liquor distributors questioning the constitutionality of Hawaii's Liquor Law. Although the companies continue to pay the taxes, the collections are placed in escrow and not reflected in the general fund tabulations. Likewise, an interpretation of a federal law has led to a disagreement between the Department and several local airlines relating to the imposition of the Public Service Company tax on certain gross income. The airlines are withholding payment on the amount in dispute until the matter is resolved.

Highway fuel tax revenue projections for fiscal 1980 showed a 0.7 percent decline in highway fuel tax collections over fiscal 1979. In January 1980, the projections were revised because fuel consumption patterns showed a higher decline than predicted earlier. Revenues were then forecast at $29.3 million for fiscal 1980. Actual collections came to $29.2 million.

Two research reports were completed during the year. One of these reports was in the continuing series of Hawaii Income Patterns which covered statistics on corporate returns filed for 1976. A second consecutive special report on Tax Credits was also produced. This report, based on tax credits claimed by Hawaii residents on their individual income tax returns filed in 1979, was prepared in January 1980 to determine the revenue impact of five types of tax credits. The five types are the renter's, excise, child care expense, solar energy device, and hot water heater insulation tax credits.

A zero bracket study was completed in response to House Concurrent Resolution No. 149, Regular Session of 1979, Tenth State Legislature. The purpose of the study was to determine the feasibility of Hawaii's adoption of the federal method of computing the standard deductions for individual income tax purposes through use of zero bracket amounts. The study showed that it is feasible for Hawaii to use this method and the recommended amounts were $600 for single taxpayers and $800 for joint returns. The recommended amounts would generate no gain or loss in tax revenues.

The Tax Research and Planning staff reviewed more than 100 tax measures introduced during the 1980 legislative session to determine the revenue impact of each proposal. A brief summary of the 17 tax measures which were enacted is presented under "Legislation."

PERSONNEL MANAGEMENT

The Department postponed filling 18 positions during the year to meet mandated savings requirements and for other contingencies. Movements within the Department were characterized by 11 retirements, eight resignations, 25 new hires, and 52 miscellaneous actions such as promotions, transfers and reallocations. The Department's employees were geographically distributed as follows: Oahu, 316; Hawaii, 59; Maui/Molokai, 36; and Kauai, 22.

STAFFING PATTERN

(Number of Authorized Permanent Positions)

By Organizations/Operating Programs	1980	1979	1978
Headquarters Administration	79	78	78
Field Administration	10	9	14
Property Assessment	112	112	111
Income Assessment & Audit	156	158	153
Collections	76	75	74
Total	433	432	430

Note: The above does not include: a) temporary clerical support positions utilized during the peak periods and special projects; b) temporary positions supported by federal funds under the U.S. Comprehensive Employment and Training Act (CETA), and c) temporary student positions during the summer.

TAX LITIGATION

BOARDS OF REVIEW

The Oahu Board of Review started the year with 3,562 pending real property appeals. By year's end, 3,244 were settled of which 2,911 were in favor of the State. The Board sustained $239.2 million in assessed valuations in the State's favor and reduced the values of 333 appellants by $44.6 million. By the close of the fiscal year, 655 appeals were filed, leaving a total of 973 cases still unresolved.

Five general excise and use tax appeals and 10 net income appeals were pending from fiscal 1979. During the year, 24 appeals were added: 6 general excise and use tax, 17 income tax, and one public service company tax. The Board settled four general excise, 11 income tax, and one public service company tax appeals. Two appeals were found in favor of the taxpayer and 14 favored the State while four income tax appeals were withdrawn. Still pending before the Board are 16 income tax and seven general excise and use tax appeals.

Maui district showed a total of 291 real property appeals pending at the start of the fiscal year. The district experienced a 43.3 percent increase in the number of new appeals to 384. During the year, the Board reviewed 283 appeals, of which 179 favored the State in assessments valued at $12.5 million. The appellants were favored in 104 cases and their assessed values were reduced by $16.8 million.

There was a carryover of 11 income tax, 9 general excise, and 1 public service company tax appeals at the start of the fiscal period. An additional three income tax and two general excise tax appeals were filed. The Board resolved eight income tax appeals, of which five favored the State. The lone general excise settlement also favored the State while the Board resolved the public service company tax appeal in favor of the taxpayer. These actions leave this district with six income tax and ten general excise tax appeals pending at the close of the year.

The Hawaii Board of Review again resolved all of the 148 appeals pending at the start of the year. The assessed values in dispute were $3.4 million. Decisions favoring the State numbered 52 and the assessed values totaled $3.1 million. The Board ruled in favor of the appellants in 96 of the cases and reduced the assessed values by $0.3 million. Pending at the end of the year were 136 appeals filed on 1980 assessments.

There were eight income tax appeals pending at the start of the year. An additional 23 income tax and three general excise tax appeals were added to the docket. By year's end, 14 income tax appeals were resolved. Carried over into fiscal 1981 are 17 income and three general excise tax appeals.

Kauai's Board of Review faced a carryover of 506 real property tax appeals at the start of the year. A total of 169 cases were resolved with 87 in favor of the State, and assessed values of $6.4 million were sustained. Values amounting to $4.2 million were reduced for 82 appellants. An additional 215 appeals were filed leaving a carryover of 552 cases to fiscal 1981.

One of two income tax appeals was resolved in the State's favor during the year. The appeal on the question of residency was pending at the end of the year.

TAX APPEAL COURT

Decisions on 12 cases were rendered by the Tax Appeal Court. By year's end, 33 new cases were added to the court's calendar. Summarized below are some of the major cases heard by the Court:

Hawaiian Airlines *Decided on 1-4-80*

The taxpayer contended that the public service tax is a tax levied on gross receipts. The Tax Director maintained the position that it is a tax levied on property measured by gross receipts. Decided in favor of the Tax Director and appealed to the State Supreme Court.

Pacific Laundry Co. *Decided on 1-18-80*

At issue is whether or not the laundry and dry cleaning services rendered to the guests of various hotels are subject to the 4% general excise tax rate. The taxpayer furnished all of the imprinted laundry slips and bags for collection from hotel guests. In addition, the taxpayer billed the hotel for the laundry or dry cleaning charges. However, all uncollectible accounts were charged to the taxpayer. Except for negligence of the hotels or their employees, the taxpayer assumed the liability for the loss or damage of the items laundered or dry cleaned. The taxpayer deemed the hotels as agents and compensated the hotels with commissions of 25 percent to 35 percent. In reporting its taxable gross receipts, the taxpayer deducted the commissions

paid to the hotels and since it deemed the hotels as its agent, the taxpayer claimed it performed intermediary services in which the 1/2% rate would be applicable. The court surmised that the commissions were neither exempt nor deductible for purposes of computing taxable gross income. In addition, it was ruled that the taxpayer did not provide intermediary services; instead, the taxpayer entered into agreements constituting the hotels as its agents and its gross receipts are properly taxed at 4% rate. The taxpayer is appealing this decision to the State Supreme Court.

Bacchus Imports, Ltd., Paradise Beverage, Inc., Eagle Distributors, Inc., and Foremost-McKesson Wine & Spirit Co. *Decided on 1/29/80*

The taxpayers are wholesalers of liquor who sell these products to retail licensees for use and consumption. Under the provisions of Chapter 244, HRS, the taxpayers pay the 20 percent liquor tax based upon the wholesale price of the liquor. The tax is higher on imported liquor since the wholesale price would also include the transportation costs. Additionally, Hawaii's Liquor Tax Law exempts Hawaii produced Okolehao and fruit wine from its taxing provisions. The Taxpayers contend that Hawaii's Liquor Tax Law violates the U.S. constitutional provision relating to interstate commerce in that imported liquor is taxed higher than Hawaii produced liquor and that the law discriminates against the taxpayers by exempting certain Hawaii produced liquor from taxation under the provisions of Chapter 244, HRS. The Court found that the Hawaii Liquor Tax was not discriminatory and the higher tax was the result of additional transportation costs incurred by the taxpayer. In addition, the Court claimed that the exemption granted to Hawaii manufactured Okolehao and fruit wine was based on rational facts and therefore was not invalid and did not cause the tax to be discriminatory. Appealed to the State Supreme Court.

Hanson, George E. H. & Shirley I. *Decided on 2/5/80*

This was a real property tax appeal case in which the taxpayers, owners of a particular parcel, appealed the assessment on the land only. The taxpayers asserted that the land's assessed valuation was too high because the land was unsuitable to support and sustain a residential structure, and also claimed that the assessment lacked uniformity. The Court ruled that the taxpayers failed to prove that the land could not support a residential structure and further declared that the Director made a fair assessment of the land.

Van Vallanburg, Mable J. *Decided on 4/11/80*

The taxpayer earned interest income from a purchase money mortgage which required that all mortgage payments be mailed directly to the taxpayer mortgagee in California, with no agency or service accounts being maintained in Hawaii. Citing an earlier case and Tax Regulations related to this topic, the Court ruled that the purchase money mortgage is intangible property with actual situs in California. Thus, interest income received from the debt is not received or derived from a source within the State.

CIRCUIT COURT

One Circuit Court decision, which was of importance to welfare recipients and their dependents, was rendered in the taxpayer's favor in the fall of 1979. The issue was whether a resident individual, who is not a dependent of any taxpayer, can claim an excise tax credit of up to $40 per individual. The following summarizes the Court's decision.

Andrew Vento v. Gordon Wong *Decided on 10/2/79*

The Department of Taxation previously disallowed claims for the excise tax credit made by resident individuals who had no income. The Court held that Hawaii's excise tax credit is available to resident individuals as well as to resident taxpayers who are not dependents of any taxpayer. The Court also allowed resident individuals to file claims retroactively for calendar years 1977 and 1978 before December 31, 1980.

LEGISLATION

In its continuing efforts to conform Hawaii's Tax Laws to the Internal Revenue Code, the 1980 State Legislature passed Act 238. With certain exceptions, this Act incorporates the changes to the Internal Revenue Code as of December 31, 1979.

Other tax bills enacted are summarized below:

Act

78 Reduces the general excise tax from four percent to one half of one percent on sales of electrical power generated from non fossil renewable natural resources.

152 Permits parents or guardians of children receiving social security and welfare benefits and the like to claim the excise tax credit for the child on the income tax return of the parent or guardian.

159 Adopts provisions of federal Public Law 96-223 which repeals the carryover basis and reinstates stepped up basis for inherited property for income tax purposes.

177 Clarifies that for the purpose of claiming the solar energy tax credit, cost shall not include the cost of consumer incentive premiums.

186 Establishes the responsibility of managers of time share projects for payment of real property taxes and requires agents of such projects to maintain records of individual owners for general excise tax purposes.

211 Amends the law relating to signatures required on forms and provides that computer printouts and the like may be filed by banks or others on behalf of their clients for payroll tax purposes.

212 Increases from seventy five cents to one dollar a page the fee for copies of tax returns and certification thereof by the Department of Taxation.

213 Expands the general excise tax exemption to include qualified trusts.

228 Increases excise tax credits which may be claimed by low income taxpayers.

235 Restricts deferral of tax on gain of sale of personal residence to resident taxpayers or to a replacement residence located within the State.

236 Changes the due date for filing duplicate copies of Form HW-2 and Form HW-3 to the last day of February following close of the calendar year.

237 Provides that the due date for filing general excise tax annual returns is the twentieth day of the fourth month following the close of the taxable year.

241 Increases personal exemptions from $750 to $1,000.

274 Exempts gross proceeds from the sale of gasohol from the general excise tax.

278 Provides for the establishment of a seven member Council on Revenues.

279 Relates to the orderly transfer of the real property tax functions from the State to the Counties.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

Net individual income taxes collected were $311.6 million, up 17.8 percent over the $264.6 million paid last year. Tax payments made at the time of filing soared 34.0 percent to $32.1 million in contrast to $24.0 million in fiscal 1979. Likewise, declaration of estimated taxes advanced $7.0 million, or 24.0 percent, to $36.2 million versus $29.2 million a year earlier.

The withholding tax on wages grew by $35.3 million to $296.0 million compared to $260.7 million a year ago, for an increase of 13.5%.

The growth rates in fiscal 1980 for payments with returns and declarations of estimated taxes were much higher than the growth rate of the withholding tax on wages, which indicate that income from sources other than wages grew at a faster rate than the latter. This is shown in the following table and is further illustrated in the following graph which shows the growth of the components of the individual income tax for fiscal years 1975 through 1980.

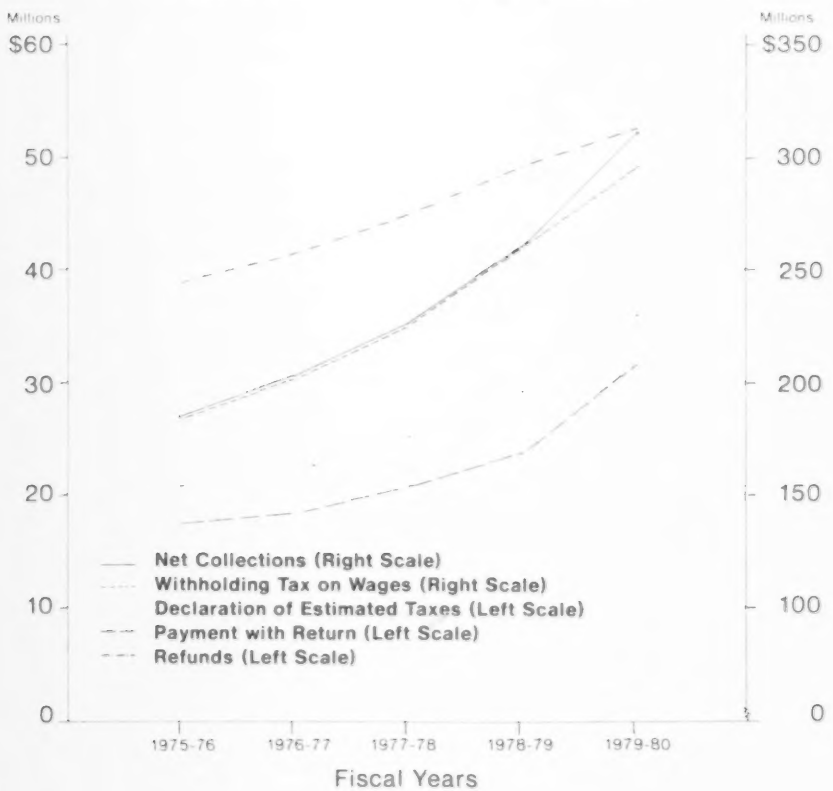
TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	1975-1980
Declaration of Estimated Taxes	$ 36,184	$ 29,191	24.0	12.4
Payment with Return	32,132	23,973	34.0	13.6
Withholding Tax on Wages	295,951	260,702	13.5	12.5
SUB-TOTAL	$364,267	$313,866	16.1	12.5
Refunds	52,682	49,309	6.8	9.2
NET	$311,585	$264,557	17.8	13.1

The Department achieved its goal of processing all refunds within 60 days of receipt of the tax return. On a statewide basis, 320,277 refunds were processed during the year with total disbursements reaching $52.7 million.

The number of refund claims grew 7.4 percent from the 298,138 in fiscal 1979 and the amount refunded increased 6.8 percent from $49.3 million to $52.7 million for the 1980 fiscal period. However, the average refund dipped slightly from $165.39 to $164.49 for the fiscal period just ended.

COMPONENTS OF THE INDIVIDUAL INCOME TAX
Fiscal Years 1975-76 through 1979-80



CORPORATE INCOME TAX

As shown in the following table, as well as in the graph, net income tax revenue from corporations continued its upward trend, growing 31.5 percent to $42.4 million compared to $32.3 million a year earlier.

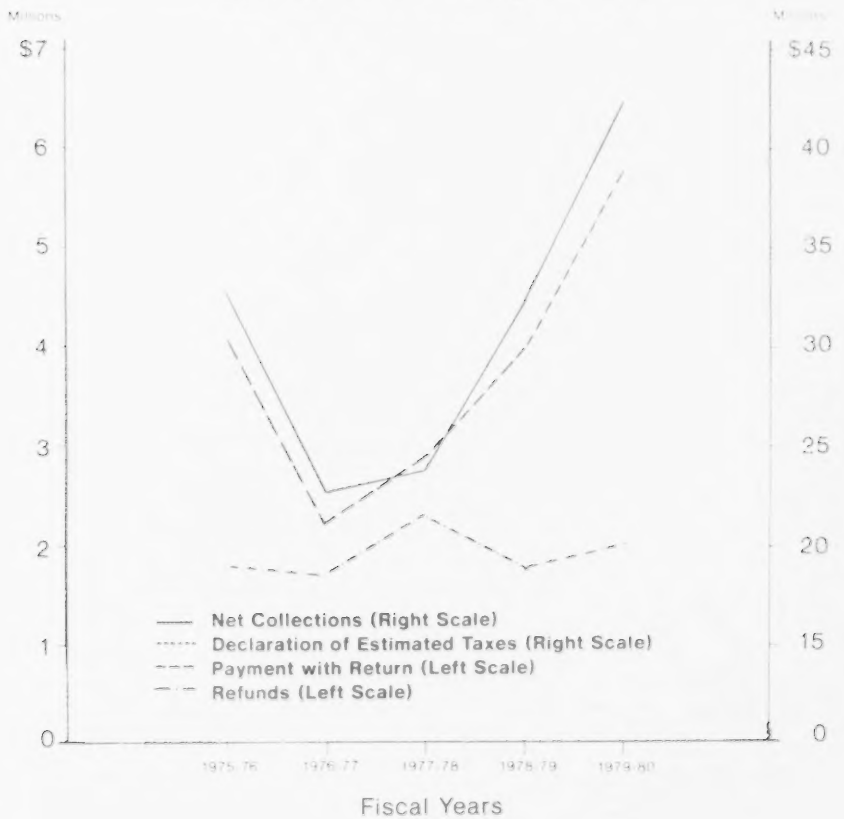
TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	Av. Annual Change (Percent) 1975-1980
Declaration of Estimated Taxes	$38,793	$29,891	29.8	8.3
Payment with Return	5,673	4,174	35.9	21.6
SUB TOTAL	$44,466	$34,065	30.5	8.5
Refunds	2,042	1,792	14.0	5.3
NET	$42,424	$32,273	31.5	9.0

Optimism in the economy is reflected by the healthy increase in payments on declaration of estimated taxes to $38.8 million for the year compared to $29.9 million in fiscal 1979.

All other components of the corporate income tax advanced over the previous year. Payments made at the time of filing grew by 35.9 percent to $5.7 million. Likewise, refunds advanced 14.0 percent to $2.0 million.

COMPONENTS OF THE CORPORATE INCOME TAX
Fiscal Years 1975-76 through 1979-80



The number claiming refunds increased by 135 to 1,069 and the average refund was $1,909.94. A year earlier, 934 claimants received total refunds of $1.8 million, or an average refund of $1,918.30.

GENERAL EXCISE AND USE TAXES

Inflation played a key role in the 19.9% increase in general excise and use tax collections over the previous year. More than half of the general fund tax revenue was derived from this source, accounting for 52.6 percent of the total. This is a slight increase over last year when general excise and use taxes produced 52.1% of the total general fund tax revenues.

The breakdown by type of business activity for fiscal years 1980, 1979, and 1975 is shown in the table on the following page.

INHERITANCE AND ESTATE TAXES

Although the number of estates settled in fiscal 1979 increased by 6.3 percent to 8,968, the number of taxable estates dropped by 328 accounts to 1,101 compared to 1,429 a year earlier. However, reflecting the increasing values of estates, the amount of inheritance taxes paid by beneficiaries grew 4.7 percent to $4.2 million for the year.

The estate tax, which is the difference between the maximum federal state death tax credit and the amount of state inheritance tax paid, declined by 5.4 percent to $70.0 thousand compared to $74.0 thousand for the fiscal period ended in 1979. The following table summarizes statistics concerning the inheritance and estate taxes.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1980	FY 1979	1979-1980	1975-1980
Inheritance Tax	$4,218	$4,027	4.7	5.8
Estate Tax	70	74	(5.4)	36.4
SUB-TOTAL	$4,288	$4,101	4.6	5.0
Penalty & Interest	40	40	—	12.9
TOTAL	$4,328	$4,141	4.5	5.0

PUBLIC SERVICE COMPANY TAX

Tax revenue from this source dropped $1.5 million to $32.4 million for the year. Specifically, taxes paid by public utilities were down $3.5 million, due primarily to the carryover of June 1980 receipts into July 1980.

Payments made by airlines totaled only $51 thousand. Some airlines are withholding tax payments based on the interpretation of a federal law that prohibits states from collecting or levying any tax directly or indirectly on the gross receipts derived from the sale of air transportation. Although the Tax Appeal Court ruled in favor of the Tax Department, the case was appealed to the State Supreme Court by the airlines. These airlines, however, continue to make payments on other activities not related to passenger revenue.

Taxes paid by motor carriers and contract carriers rose 27.3 percent to $9.6 million. Together with the above, the net decrease in public service company taxes totaled $1.5 million for a decline of 4.3 percent. The following table summarizes public service company tax collections.

GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1980, 1979, AND 1975

(In Thousands of Dollars)

Source of Revenue	Rate	1980	1979	1975
TAX BASE				
Retailing		$ 5,784,890	$ 5,212,451	$ 3,193,010
Services		1,547,498	1,328,180	852,500
Contracting		1,488,781	1,157,972	1,116,179
Hotel Rentals		695,927	626,631	345,229
All Other Rentals		1,044,699	971,821	613,757
All Others (4)		1,079,651	813,072	542,780
SUB-TOTAL		$11,641,456	$10,110,127	$ 6,663,455
Sugar Processing		$ 371,028	$ 256,338	$ 772,998
Pineapple Canning		180,860	146,605	114,738
Producing		137,237	160,374	103,428
Manufacturing		619,886	510,737	409,376
Wholesaling		2,955,889	2,373,028	1,463,978
Use (2%)		2,081,472	1,560,393	927,227
All Others (1)		67,569	54,745	46,589
Insurance Commissions		249,546	101,463	23,215
SUB-TOTAL		$ 6,663,487	$ 5,163,683	$ 3,861,499
TOTAL ALL ACTIVITIES		$18,304,943	$15,273,810	$10,524,954
Adjustments		—	(1,526)	—
GRAND TOTAL		$18,304,943	$15,272,284	$10,524,954
TAX				
Retailing	4	$ 231,396	$ 208,498	$ 127,718
Services	"	61,900	53,127	34,098
Contracting	"	59,551	46,319	44,646
Hotel Rentals	"	27,837	25,065	13,809
All Other Rentals	"	41,788	38,873	24,550
All Others	"	43,186	32,523	21,704
SUB-TOTAL		$ 465,658	$ 404,405	$ 266,525
Sugar Processing	½	$ 1,855	$ 1,282	$ 3,865
Pineapple Canning	"	904	733	574
Producing	"	686	802	517
Manufacturing	"	3,100	2,554	2,047
Wholesaling	"	14,780	11,865	7,320
Use	"	10,407	7,802	4,636
All Others	"	338	273	233
Insurance Commissions		374	543	464
SUB-TOTAL		$ 32,444	$ 25,854	$ 19,656
TOTAL ALL ACTIVITIES		$ 498,102	$ 430,259	$ 286,181
Adjustments		—	(61)	(9)
Penalty & Interest		191	303	1,038
GRAND TOTAL		$ 498,293	$ 430,501	$ 287,210

(2) applicable to commissions received by insurance solicitors prior to 1/1/79. (4) applicable to commissions received by insurance solicitors, general agents, and subagents effective 1/1/79.

PUBLIC SERVICE COMPANY TAX
(In Thousands of Dollars)

	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	1975-1980
Public Utilities	$22,751	$26,228	(13.3)	6.5
MC&CC	9,597	7,539	27.3	14.4
Airlines	51	103	(50.5)	(32.1)
SUB-TOTAL	$32,399	$33,870	(4.3)	5.9
Penalty & Interest	59	55	7.3	—
TOTAL	$32,458	$33,925	(4.3)	5.9

FUEL TAXES

As can be seen in the following two tables, as well as in the graph, a decline in gasoline consumption was recorded for the first time since 1974. Statewide gasoline consumption dropped 3.2 percent to 318.1 million gallons in contrast to 328.7 million for fiscal 1979. In 1974, the Arab oil embargo was responsible for the 0.7 percent dip in gasoline sales while the rising cost of fuel and the increase in the number of fuel efficient cars helped stem the growth in consumption in 1980. Comparative price data for the City and County of Honolulu show that for April 1979, the average price of all types of gasoline was $0.88 per gallon. However, prices soared 53.4 percent for the same period in 1980 to $1.35 per gallon.

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

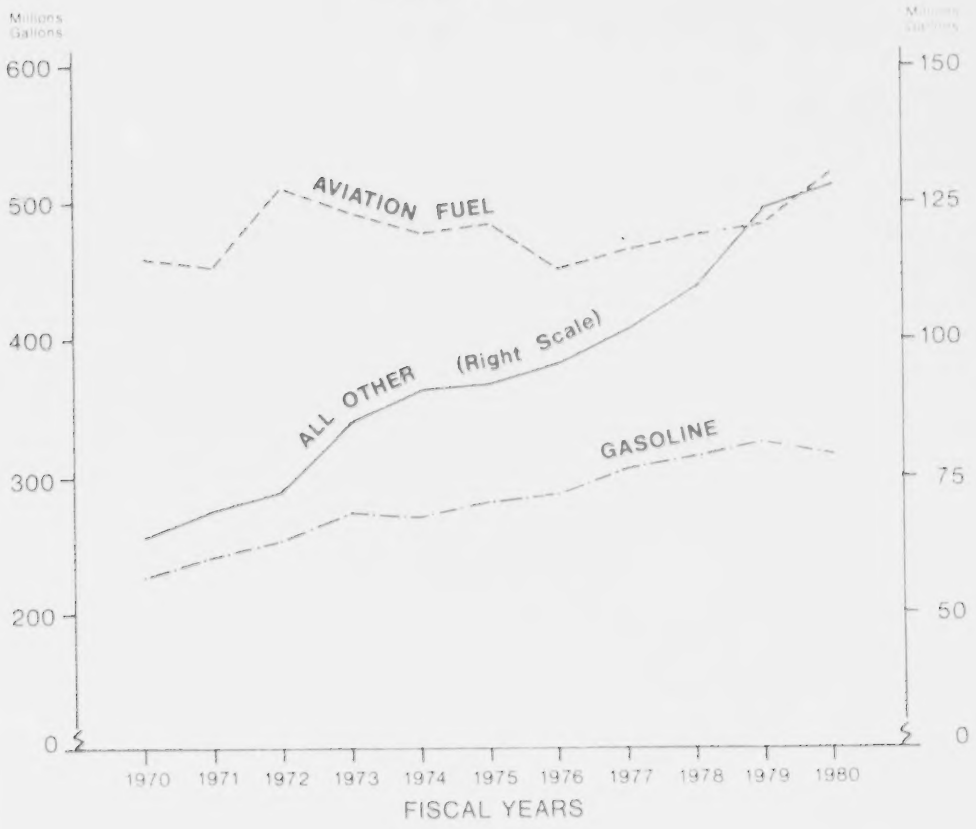
	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	1975-1980
Gasoline	317,754	328,305	(3.2)	2.5
Diesel Oil — Non-Highway	107,063	103,449	3.5	7.1
Diesel Oil — Highway	16,705	16,086	3.8	6.8
Liq. Petro. Gas — Off Highway	2,238	2,078	7.7	4.5
Liq. Petro. Gas — Highway	1,112	1,176	(5.4)	2.9
Small Boats — Gasoline	362	363	(0.3)	3.8
Small Boats — Diesel Oil	891	847	5.2	1.5
Aviation Fuel	520,205	486,105	7.0	1.6
TOTAL	966,330	938,409	3.0	2.5

The City and County of Honolulu showed the largest decline in gasoline consumption, 3.8 percent, followed closely by Kauai with a drop of 3.4 percent. Maui, whose gasoline consumption growth rate outpaced the other counties in the past, showed a drop of 1.8 percent over the same period a year ago. The County of Hawaii registered a miniscule decline of 0.4 percent.

In contrast to gasoline, statewide diesel oil consumption for highway use advanced 3.8 percent to 16.7 million gallons. The counties of Maui and Kauai displayed healthy growth rates of 24.5 percent and 21.8 percent, respectively, over the previous year. The City and County of Honolulu reported a modest growth rate of 2.6 percent. On the other hand, the County of Hawaii showed a decline of 4.8 percent over the same period a year earlier.

Aviation fuel consumption increased by 34.1 million gallons to 520.2 million gallons for the year. Consumption for the City and County of Honolulu increased 8.0 percent and the remaining counties showed lower consumption levels for the year compared to fiscal 1979.

TRENDS IN FUEL CONSUMPTION
Fiscal Years 1970-1980



On a statewide basis, aviation fuel consumption increased at an 8.8 percent rate during the first half of the fiscal year compared to 5.3 percent in the second half. Contributing to this was the increase in visitors. For the year, the number of tourists grew by a modest 3.1 percent with the first half of the year registering a growth rate of 7.2 percent and the second half a decline of 0.9 percent over the same period a year earlier.

The group responsible for the increase of 118.5 thousand tourists in fiscal 1980 was the eastbound visitor. These visitors grew by 21.4 percent while the number of westbound visitors declined by 1.0 percent compared to a year earlier.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

STATE HIGHWAY FUND:	FY 1980	FY 1979	Difference
Gasoline	$26,663	$27,550	$ (887)
Diesel Oil — Non-Highway Use	1,072	1,035	37
Diesel Oil — Highway Use	1,409	1,357	52
Liq. Petro. Gas — Off Highway Use	22	21	1
Liq. Petro. Gas — Highway Use	66	70	(4)
SUB TOTAL	$29,232	$30,033	$ (801)
Motor Vehicle Weight Tax/Reg. Fees	8,380	8,002	378
TOTAL	$37,612	$38,035	$ (423)
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$11,998	$ 8,797	$3,201
County of Maui	1,622	1,618	4
County of Hawaii	2,031	2,046	(15)
County of Kauai	622	636	(14)
TOTAL	$16,273	$13,097	$3,176
BOATING SPECIAL FUND	$ 344	$ 326	$ 18
STATE AIRPORT FUND:			
Aviation Fuel	$ 5,202	$ 4,861	$ 341

OTHER TAXES

Revenues from the conveyance tax continued to grow at a rapid pace, increasing 22.1 percent to $2.3 million. For the fiscal period just ended, 28,996 deeds were recorded, a growth of 1.4 percent over the 28,586 recorded a year ago. The average tax per recorded deed for the year was $78.24 in contrast to $64.99, thus showing an average price increase of 20.4 percent. All of these changes reinforce the past years' patterns of rising real estate values.

Taxes paid by insurers also showed a healthy increase of 20.4 percent. The tax rates were increased for most insurers on January 1, 1979; therefore, the higher rates were in effect for the entire accounting year compared to the 1979 fiscal period.

Liquor tax collections dropped sharply by 36.6 percent to $12.9 million compared to $20.4 million a year earlier. Four large liquor distributors are challenging the State's liquor tax law, claiming that it is unconstitutional for the State to tax imported liquor, and that such laws violate the U.S. constitutional provision related to interstate commerce. This case is in the State Supreme Court. The protesting companies continue to pay their taxes, but the collections are placed in escrow pending the outcome of the litigation.

Employment security contributions, a non-general fund revenue, are collected by the Department of Taxation for the Department of Labor and Industrial Relations. Collections dropped 10.5 percent, due primarily to revised tax rates initiated in January 1979. From July 1978 through December 1978, a flat rate of 3.5 percent was assessed

on wages. Commencing in calendar year 1979, a variable tax rate of 1.8 percent to 4.5 percent based upon the employer's past employment record became effective. For calendar 1980, the rate varies from 1.0 percent to 4.5 percent. Therefore, on the average, the rates for fiscal 1980 were lower than for the previous year.

The following table summarizes the tax collections for various types of taxes.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

TYPE OF TAX	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	Av. Annual Change (Percent) 1975-1980
Banks & Other Financial Corp.	$ 7,836	$ 7,602	3.1	25.4
Conveyance	2,269	1,858	22.1	27.0
Empl. Security Contributions	67,535	75,458	(10.5)	20.0
Insurance Premiums	22,240	18,466	20.4	20.3
Liquor & Permits	12,948	20,434	(36.6)	2.7
Tobacco & Licenses	12,759	11,856	7.6	8.0
All Other	388	361	7.5	7.2
SUB-TOTAL	$125,975	$136,035	(7.4)	17.9
Motor Vehicle Weight/Reg. Fees	8,381	8,002	4.7	—
TOTAL	$134,356	$144,037	(6.7)	15.1

COMPLIANCE

The Department's continuing assignment of field auditors to special projects is reflected by the 15.9 percent decline in the number of audits to 973. Despite this drop, the effectiveness of the audits is highlighted by a growth of 18.5 percent in the amount of assessments which totaled $19.2 million in fiscal 1980 compared to $16.2 million a year ago.

The number of office audits increased by 11.3 percent. This growth was achieved even though some personnel had to be used to: (a) recheck the 1977 and 1978 returns of welfare individuals before awarding excise tax credits for their minor children; (b) assist the general excise division with the computerized general excise and withholding tax program; and (c) gather data for the then contemplated tax rebate program.

With the number of personnel assigned to these various special projects, the office audit team was still able to maintain the amount of additional assessments at the same level as the previous year. Part of the stability in additional assessments is probably due to minimal changes in the tax laws.

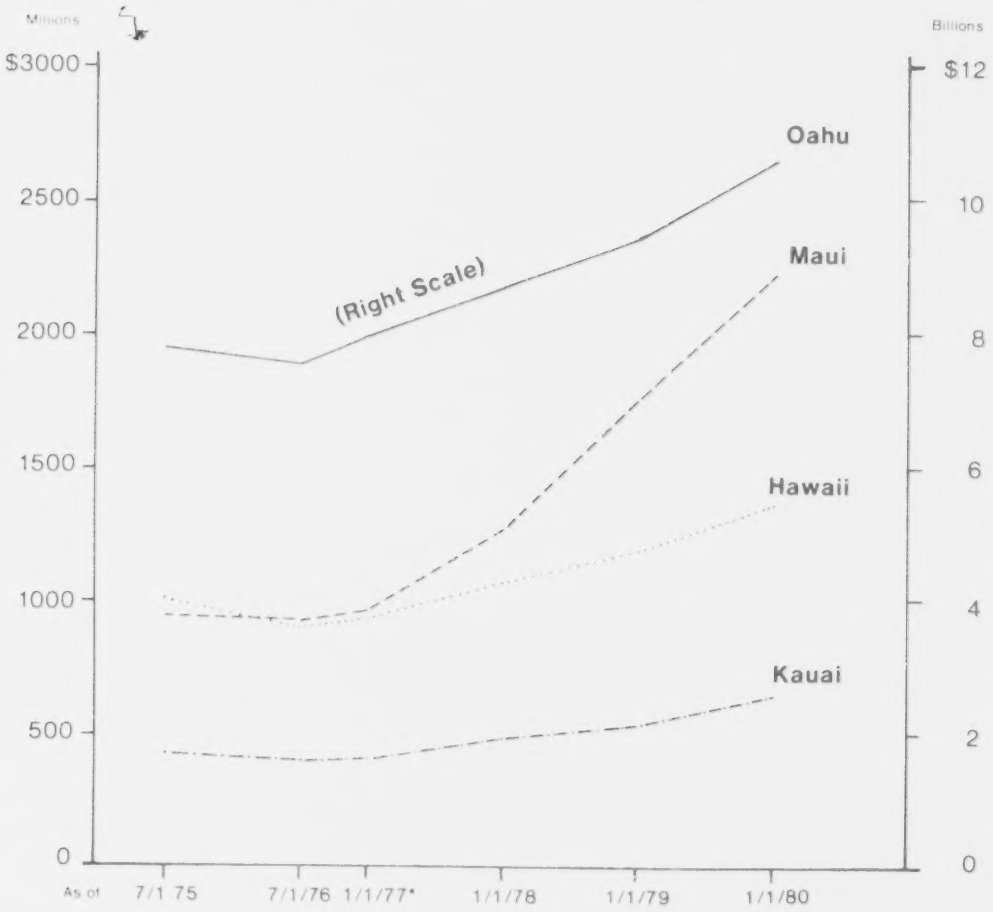
	FY 1980	FY 1979	FY 1978
Number of Field Audits	973	1,157	1,175
Amount of Assessments (Millions)	$19.2	$16.2	$13.9
Number of Office Audits	400,104	359,588	373,756
Amount of Assessments (Millions)	$12.9	$12.9	$13.9

REAL PROPERTY ASSESSMENT

NET ASSESSED VALUATION

The continuing growth in real property values is seen in the appreciable increase in the statewide net assessed valuations. As of January 1, 1979, the net assessed valuations rose 11.9 percent to $12.9 billion. Maui's soaring real property values are reflected by the 40.4 percent increase in net assessed valuation; followed by Hawaii with 10.8 percent; Kauai, 10.5 percent; and the City & County of Honolulu, 8.0 percent. The following graph shows the trend in real property net assessed values.

TRENDS IN REAL PROPERTY NET ASSESSED VALUES FOR EACH COUNTY, 1975-1980



*Assessment functions changed to calendar year basis

Net assessed valuations increased by 14.9 percent as of January 1, 1980 compared to January 1, 1979. This valuation is used as a basis for county budget plans for fiscal 1981. Maui continues to show rising values with a 25.3 percent increase for fiscal 1981. All other counties showed marked changes with 20.3 percent for Kauai, 14.9 for Hawaii and 12.6 percent for Oahu.

Real property tax collections rose 6.8 percent, with all counties except Maui registering higher collections. The drop in Maui's real property tax collections is the result of the lower tax rates passed by the County Council for the third consecutive year. The rates dropped from $9.09 per $1,000 assessed value to $6.47.

The following table shows the real property tax collections for the past two years for each of the four counties.

REAL PROPERTY TAX COLLECTIONS
(In Thousands of Dollars)

COUNTY	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	1975-1980
C & C of Honolulu	$145,002	$135,048	7.4	8.3
Maui	11,627	12,056	(3.6)	3.8
Hawaii	21,603	19,822	9.0	7.3
Kauai	7,977	7,408	7.7	10.2
STATE	$186,209	$174,334	6.8	7.9

HOME EXEMPTIONS

The number of taxpayers receiving home exemptions increased 3.1 percent to 132,813. Of this total, 36,282 claimed multiple home exemptions of $24,000 or $30,000, depending on whether the owner is 60 or 70 years of age, respectively, for a total multiple home exemption of $471.8 million. For taxpayers from age 60-69, the average exemption wae $11,584 while claimants 70 years and older received an average exemption of $14,654. This compares with the fiscal 1979 averages of $11,282 and $14,098, respectively.

The value of all taxable real property before home exemptions increased 9.1 percent. After adjusting for home exemptions, which totaled $2.1 billion, the net taxable value advanced by 11.2 percent. Contributing to this is the lower ratio of home exemptions to valuation before adjusting for exemptions. For example, the ratio in fiscal year 1979 was 34.9 percent, dropping to 33.6 percent for fiscal 1980.

The following table shows various comparative statistics on home exemptions.

HOME EXEMPTIONS
(In Millions of Dollars)

FEE	FY 1980	FY 1979	Av. Annual Change (Percent) 1979-1980	1975-1980
Number	96,273	92,989	3.5	3.1
Land & Building Values	$4,360.7	$3,962.2	10.1	11.6
Amount of Exemptions	1,551.0	1,469.5	5.5	14.5
NET ASSESSED VALUE	$2,809.7	$2,492.7	12.7	11.8
LEASEHOLD				
Number	36,540	35,869	1.9	3.8
Land & Building Values	$1,793.1	$1,680.2	6.7	8.1
Amount of Exemptions	518.0	500.2	3.6	15.3
NET ASSESSED VALUE	$1,275.1	$1,180.0	8.1	6.7

NUMBER OF PARCELS

There were 10,146 more parcels in fiscal 1980 compared to fiscal 1979. Approximately two-thirds of the growth in parcels was attributable to Oahu and Hawaii. The table below summarizes the number of parcels in each county.

COUNTY	FY 1980	FY 1979	% Increase
C & C of Honolulu	177,818	174,125	2.1
County of Maui	38,336	36,283	5.7
County of Hawaii	119,049	115,832	2.8
County of Kauai	17,227	16,044	7.4
STATE	352,430	342,284	3.0

Chart 2 shows the total value of residential properties after exemptions, as well as the value of home exemptions for the past five fiscal years.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

The amount of taxes collected by various agencies of the State and County governments totaled $1,260.7 million. Of this amount, $1,227.8 million was collected by the Department of Taxation. The Department of Land and Natural Resources collected $2.3 million in conveyance tax, while $22.2 million in insurance premium tax was collected by the Department of Regulatory Agencies. The State motor vehicle weight tax of $8.4 million was collected by the counties and turned over to the Department of Budget and Finance.

Tax collections accruing to the State General Fund continue to increase each year. For fiscal 1979-1980, this fund's share of collections advanced to 75.2 percent compared to 73.0 percent for fiscal 1979. Contributing to this is the decline in employment security contributions, which is included in the state special funds category. The distribution of funds is shown below.

DISTRIBUTION OF COLLECTIONS

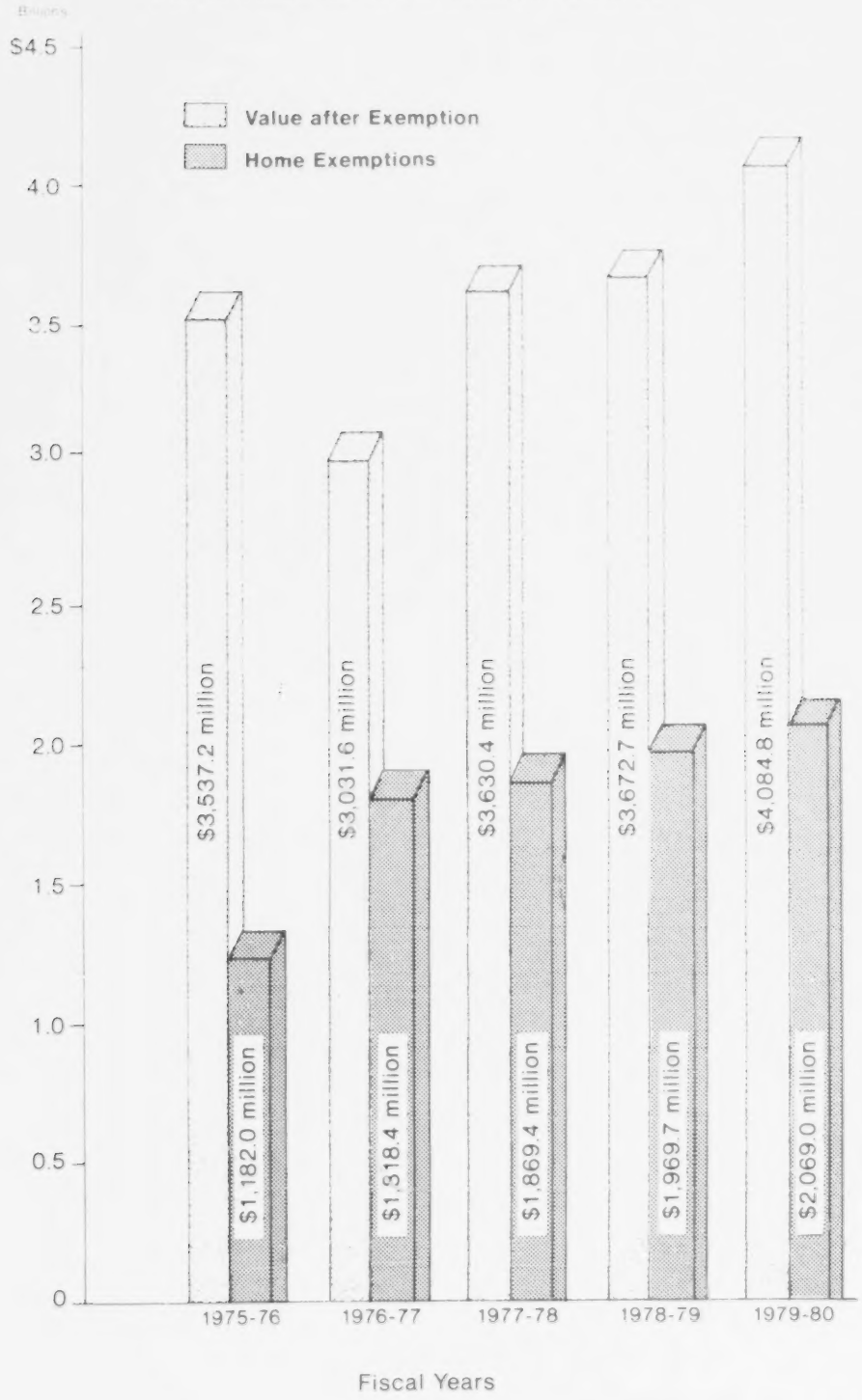
	FY 1980 Amount Collected	FY 1980 % of Total	FY 1979 Amount Collected	FY 1979 % of Total
State General Fund	$ 947,346,477	75.1	$ 825,973,587	73.0
State Special Funds	110,874,534	8.8	118,679,964	10.5
County Funds	202,482,422	16.1	187,430,386	16.5
TOTAL	$1,260,703,433	100.0	$1,132,083,937	100.0

Revenue accruing to the State special fund, namely, the State highway fund, the airport fund, the boating special fund, and the employment security fund, dropped $7.8 million to $110.9 million. The greatest negative impact was due to the change in tax rates assessed employers for the employment security fund. The decline in highway tax revenues was nearly offset by the increase in collections to the State airport fund.

The ratio of County funds, which consist of both real property and county fuel taxes, to total collections also declined. The ratio of these taxes to total collections was

CHART 2

VALUES AFTER EXEMPTION OF RESIDENTIAL PROPERTIES AND HOME EXEMPTIONS CLAIMED
Fiscal Years 1975-76 through 1979-80



16.1 percent, down from 16.5 percent a year earlier. As recent as fiscal 1976, County revenue accounted for 19.4 percent of the total tax collections.

The 1979 Legislature passed Act 224 which allowed individual taxpayers to designate $2, or $4 for married couples filing jointly, of their state income tax liability to be deposited in the Hawaii Election Campaign Fund. In the first year of its existence, $181,682 was deposited in this fund by 90,341 taxpayers and this amount is reflected in the State special funds category.

TAX COLLECTIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
OAHU	**FY 1980**	**FY 1979**	**1979-1980**	**1975-1980**
Gross Collections*	$1,114,258	$999,058	11.5	10.9
Less Appeals, Payments under Protest, Refunds, TDI	60,022	51,931	15.6	11.7
Net Collection by Department	$1,054,236	$947,127	11.3	10.8
MAUI				
Gross Collections*	$ 72,226	$ 63,952	12.9	14.2
Less Appeals, Payments under Protest, Refunds, TDI	5,901	3,767	56.6	21.4
Net Collection by Department	$ 66,325	$ 60,185	10.2	13.8
HAWAII				
Gross Collections*	$ 82,125	$ 72,998	12.5	10.5
Less Appeals, Payments under Protest, Refunds, TDI	6,715	4,651	44.4	13.3
Net Collection by Department	$ 75,410	$ 68,347	10.3	10.3
KAUAI				
Gross Collections*	$ 34,222	$ 30,306	12.9	12.0
Less Appeals, Payments under Protest, Refunds, TDI	2,379	2,207	7.8	17.1
Net Collection by Department	$ 31,843	$ 28,099	13.3	12.1

**Excludes conveyance, insurance premium, and motor vehicle weight taxes.*

DELINQUENT TAXES

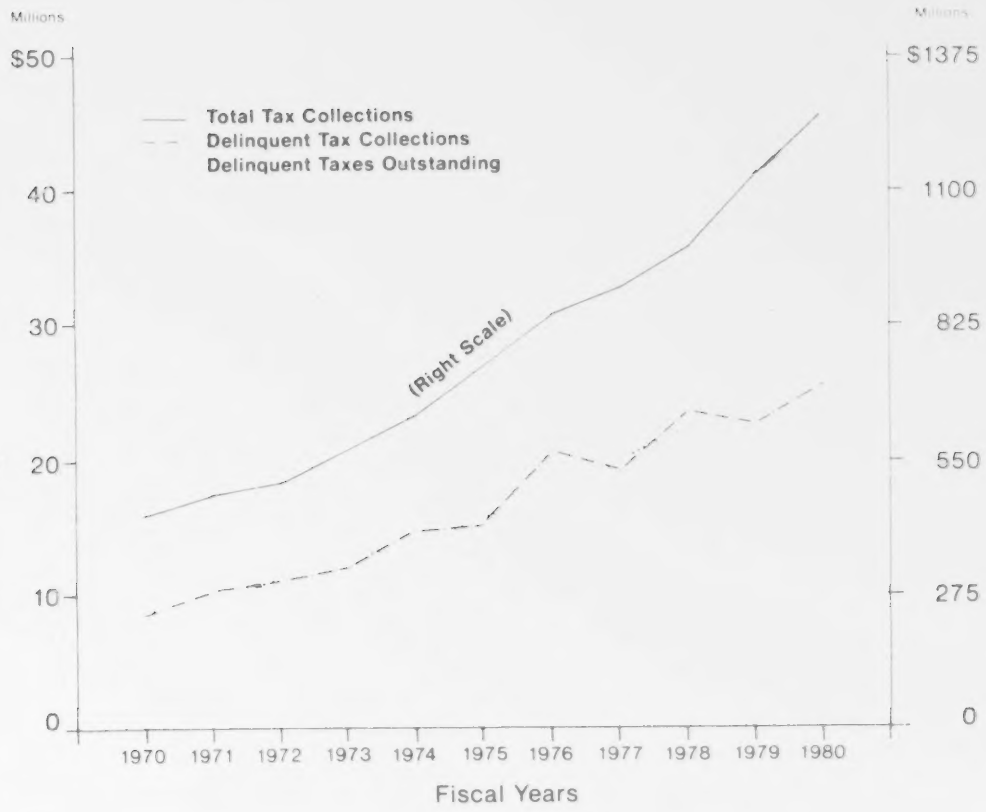
The number of new referrals of delinquent accounts in fiscal 1980 compared to fiscal 1979 increased 7.2 percent to 34,971. Likewise, the outstanding delinquent balance increased 16.8 percent to $34.8 million, up from $29.8 million a year earlier. Delinquent collections amounted to $25.3 million compared to $20.8 million for the previous year. However, this 21.6 percent increase in collections was partially offset by the corresponding growth in new delinquencies totaling $30.3 million compared to $27.9 million a year earlier.

There are several factors contributing to the growth in delinquency. First, during periods of unstable economic conditions, taxpayers tend to satisfy other creditors first since the interest rate assessed on delinquent accounts is lower. Secondly, as Hawaii's economy grows so does the number of businesses and the number of delinquent accounts. New methods of processing delinquent accounts are being implemented to at least partially offset this growth. Thirdly, the workload of the collectors increased because of problems encountered with the installation of the automated general excise system. The system is now being redesigned to eliminate these problems.

The following graph compares delinquent tax collections, delinquent taxes outstanding and total tax collections since the 1970 fiscal year.

COMPARISON OF DELINQUENT TAX COLLECTIONS AND DELINQUENT TAXES OUTSTANDING WITH TOTAL TAX COLLECTIONS

Fiscal Years 1970-1980



COST OF ADMINISTRATION

The total taxes collected and administered by the Department increased 12.8 percent to $1,160.3 million. Excluded from this are the conveyance and insurance premium taxes, which are collected by the Department of Land and Natural Resources and the

Department of Regulatory Agencies, respectively. Also excluded are the motor vehicle weight tax and the registration fee, which are collected by the County agencies; and the employment security tax, which although collected by the Department, is administered by the Department of Labor and Industrial Relations.

The Department, in carrying out its duties, had expenditures of $8.0 million, which were 12.7 percent higher than the $7.1 million expended in fiscal 1979. The increase in expenses was due primarily to the negotiated wage increase which became effective July, 1979.

Thus, with the total taxes collected and administered by the Department growing by $132.0 million and expenditures growing from $7.1 million to $8.0 million, the cost to collect $100 of taxes remained at $0.69.

APPENDIX

Statistical Tables

	Page
Tax Collections and Distributions	A-2
State General Fund	A-3
State Special Funds	A-3
County Tax Revenues	A-4
Fuel Tax Rates	A-4
Real Property Tax Valuations and Tax Rates	A-5
Net Taxable Value by Land Use Classes — Oahu and Maui	A-6
Hawaii and Kauai	A-7
Chart — Real Property Net Taxable Assessed Value by Land Use Classes	A-8
Real Property Tax Rates for Each Taxation District	A-9
Training Programs	A-10
Outline of Hawaii Tax System	A-12

TAX COLLECTIONS

Source of Revenue	FISCAL YEARS 1980 Amount Collected	1980 % of Total	1979 Amount Collected	1979 % of Total
Banks — Financial Corporations	$ 7,835,771	.62	$ 7,602,035	.67
Conveyance	2,268,750	.18	1,857,695	.16
Employment Security Contributions	67,535,526	5.36	75,458,288	6.66
Fuel	51,050,763	4.05	48,316,257	4.27
General Excise and Use	498,292,775	39.53	430,500,809	38.03
Income — Corporations	42,423,522	3.37	32,273,128	2.85
Income — Individuals	311,584,528[1]	24.71	264,557,180	23.37
Inheritance and Estate	4,327,864	.34	4,141,033	.37
Insurance Premiums	22,240,367	1.76	18,466,002	1.63
Liquor and Permits	12,948,415	1.03	20,433,985	1.80
Motor Vehicle Weight/Registration Fees	8,380,699	.66	8,002,224	.71
Public Service Companies	32,458,108	2.58	33,924,866	3.00
Real Property	186,209,287	14.77	174,333,581	15.40
Tobacco and Licenses	12,759,365	1.01	11,855,701	1.05
All Others	387,693	.03	361,153	.03
TOTAL	$1,260,703,433	100.00	$1,132,083,937	100.00

DISTRIBUTION OF COLLECTIONS

STATE FUNDS:				
State General	$ 947,346,477	75.15	$ 825,973,587	72.96
State Highway	37,612,407	2.98	38,034,708	3.36
State Airport	5,202,054	.41	4,861,054	.43
Boating Special Fund	343,865	.03	325,914	.03
Unemployment Trust	67,535,526	5.36	75,458,288	6.66
Election Campaign Fund	180,682[2]	.01	—	—
SUB-TOTAL — STATE	$1,058,221,011	83.94	$ 944,653,551	83.44
COUNTY REVENUES:				
Property	$ 186,209,287	14.77	$ 174,333,581[3]	15.40
Fuel	16,273,135	1.29	13,096,805	1.16
SUB-TOTAL — COUNTIES	$ 202,482,422	16.06	$ 187,430,386	16.56
TOTAL	$1,260,703,433	100.00	$1,132,083,937	100.00

[1] *Includes Election Campaign Fund total of $180,682 before distribution.*
[2] *Effective June 21, 1979.*
[3] *Includes $2,973,108 reimbursement to the State for cost of administration in prior year.*
[4] *Includes $3,109,286 reimbursement to the State for cost of administration in prior year.*

STATE GENERAL FUND

Source of Revenue	FISCAL YEARS 1980 Amount Collected	1980 % of Total	1979 Amount Collected	1979 % of Total
Banks — Financial Corporations	$ 7,835,771	.83	$ 7,602,035	.92
Conveyance	2,268,750	.24	1,857,695	.22
General Excise and Use	498,292,775	52.60	430,500,809	52.12
Income — Corporations	42,423,522	4.48	32,273,128	3.91
Income — Individuals	311,403,846	32.87	264,557,180	32.03
Inheritance and Estate	4,327,864	.46	4,141,033	.50
Insurance Premiums	22,240,367	2.34	18,466,002	2.24
Liquor and Permits	12,948,415	1.37	20,433,985	2.47
Public Service Companies	32,458,108	3.43	33,924,866	4.11
Tobacco and Licenses	12,759,365	1.34	11,855,701	1.44
All Other	387,694	.04	361,153	.04
TOTAL	$947,346,477	100.00	$825,973,587	100.00

STATE HIGHWAY FUND

Gasoline	$ 26,662,575	70.89	$ 27,549,716	72.43
Diesel Oil — Non-Highway Use	1,071,437	2.85	1,035,132	2.72
Diesel Oil — Highway Use	1,409,241	3.74	1,356,398	3.57
Liq. Pet. Gas — Off Highway	22,207	.06	20,622	.05
Liq. Pet. Gas — Highway Use	66,248	.18	70,016	.19
Motor Vehicle Weight Tax/Reg. Fees	8,380,699	22.28	8,002,224	21.04
TOTAL	$ 37,612,407	100.00	$ 38,034,708	100.00

STATE AIRPORT FUND

Aviation Fuel	$ 5,202,054	$ 4,861,054

BOATING SPECIAL FUND

Fuel Used in Small Boats	$ 343,865	$ 325,014

UNEMPLOYMENT TRUST FUND

Tax on Payrolls	$ 67,535,526	$ 75,458,288

ELECTION CAMPAIGN FUND

Political Campaign Contribution	$ 180,682	—

[1]Net of Election Campaign Fund total of $180,682
[2]Effective June 21, 1979

COUNTY TAX REVENUES COLLECTED BY STATE

FISCAL YEARS

Source of Revenue	1980	1979	Difference	Percent Change
CITY & COUNTY OF HONOLULU:				
Property	$145,002,528	$135,047,817	$ 9,954,711	7.37
Fuel	11,998,346	8,797,372	3,200,974	36.39
Sub-Total	$157,000,874	$143,845,189	$13,155,685	9.15
COUNTY OF MAUI:				
Property	$ 11,626,644	$ 12,055,703	$ (429,059)	(3.56)
Fuel	1,622,445	1,617,721	4,724	0.29
Sub-Total	$ 13,249,089	$ 13,673,424	$ (424,335)	(3.10)
COUNTY OF HAWAII:				
Property	$ 21,602,726	$ 19,821,901	$ 1,780,825	8.98
Fuel	2,030,502	2,045,387	(14,885)	(0.73)
Sub-Total	$ 23,633,228	$ 21,867,288	$ 1,765,940	8.08
COUNTY OF KAUAI:				
Property	$ 7,977,389	$ 7,408,160	$ 569,229	7.68
Fuel	621,842	636,325	(14,483)	(2.28)
Sub-Total	$ 8,599,231	$ 8,044,485	$ 554,746	6.90
STATEWIDE:				
Property[1]	$186,209,287	$174,333,581	$11,875,706	6.81
Fuel	16,273,135	13,096,805	3,176,330	24.25
TOTAL	$202,482,422	$187,430,386	$15,052,036	8.03

FUEL TAX RATES PER GALLON[2]

	State	County	Total
GASOLINE & DIESEL OIL (HWY. USE)			
City & County of Honolulu	8½¢	6½¢[3]	15¢
County of Maui	8½¢	5¢	13½¢
County of Hawaii	8½¢	5¢	13½¢
County of Kauai	8½¢	4¢	12½¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	6¢	4¢[3]	10¢
County of Maui	6¢	3¢	9¢
County of Hawaii	6¢	3¢	9¢
County of Kauai	6¢	3¢	9¢

[1] *Actual collections before allocation of administrative costs.*
[2] *Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed at one cent per gallon.*
[3] *Effective December, 1979.*

REAL PROPERTY TAX VALUATIONS AND TAX RATES
FISCAL YEAR 1979-1980

(In Thousands of Dollars)

	City & County of Honolulu	County of Maui	County of Hawaii	County of Kauai	All Districts
Assessor's Gross Valuation (as of 1/1/79)					
Land	$ 8,165,707	$1,180,341	$ 961,656	$383,122	$10,690,826
Improvements	6,673,422	963,896	737,801	310,903	8,686,022
TOTAL	$14,839,129	$2,144,237	$1,699,457	$694,025	$19,376,848
Total Exemptions	$ 5,390,055	$ 352,453	$ 506,384	$153,669	$ 6,402,561
Fifty Percent of Valuation on Appeal	$ 44,861	$ 14,657	$ 1,700	$ 4,896	$ 66,114
Valuation for Tax Rate Purposes	$ 9,404,212	$1,777,127	$1,191,373	$535,460	$12,908,172
Amounts to be Raised by Taxation	$ 143,226	$ 11,498	$ 21,324	$ 7,764	$ 183,812
Tax Rates Per $1,000 Value[2]	$ 15.23	$ 6.47	$ 17.90	$ 14.50	—

REAL PROPERTY TAX VALUATIONS AND TAX RATES
FISCAL YEAR 1978-1979

(In Thousands of Dollars)

	City & County of Honolulu	County of Maui	County of Hawaii	County of Kauai	All Districts
Assessor's Gross Valuation (as of 1/1/78)[1]					
Land	$ 7,724,059	$ 871,951	$ 885,095	$365,396	$ 9,846,501
Improvements	6,227,264	747,666	664,008	275,666	7,914,604
TOTAL	$13,951,323	$1,619,617	$1,549,103	$641,062	$17,761,105
Total Exemptions	$ 5,156,805	$ 331,221	$ 468,628	$147,110	$ 6,103,764
Fifty Percent of Valuation on Appeal	$ 88,053	$ 22,547	$ 5,790	$ 9,465	$ 125,855
Valuation for Tax Rate Purposes	$ 8,706,464	$1,265,848	$1,074,685	$484,487	$11,531,484
Amounts to be Raised by Taxation	$ 132,599	$ 11,507	$ 19,237	$ 7,025	$ 170,368
Tax Rates Per $1,000 Value[2]	$ 15.23	$ 9.09	$ 17.90	$ 14.50	—

[1] *Represents 60 percent of market value*
[2] *See page A-9 for detail of rates*

NET TAXABLE ASSESSED VALUE BY LAND USE CLASSES

(In Thousands of Dollars)

OAHU

	Land Use Classes	Land	Building	Total	Land & Bldg. Ratio L	B	% of Total
I.	Improved Residential	$3,079,680	$1,122,635	$4,202,315	73	27	45
II.	Hotel/Apartment	716,240	1,375,272	2,091,512	34	66	22
III.	Commercial	669,941	1,194,618	1,864,559	36	64	20
IV.	Industrial	606,201	327,615	933,816	65	35	10
V.	Agricultural	91,459	30,084	121,543			1
VI.	Conservation	15,343	5,836	21,179			-
VII.	Unimproved Residential	164,103	5,185	169,288			2
	TOTAL	$5,342,967	$4,061,245	$9,404,212			100

MAUI

I.	Improved Residential	$ 338,439	$ 124,833	$ 463,272	73	27	26
II.	Hotel/Apartment	311,813	488,170	799,983	39	61	45
III.	Commercial	82,807	48,450	131,257	63	37	7
IV.	Industrial	50,100	46,354	96,454	52	48	5
V.	Agricultural	157,360	48,363	205,723			12
VI.	Conservation	9,678	1,078	10,756			1
VII.	Unimproved Residential	69,496	186	69,682			4
	TOTAL	$1,019,693	$ 757,434	$1,777,127			100

NET TAXABLE ASSESSED VALUE BY LAND USE CLASSES

(In Thousands of Dollars)

HAWAII

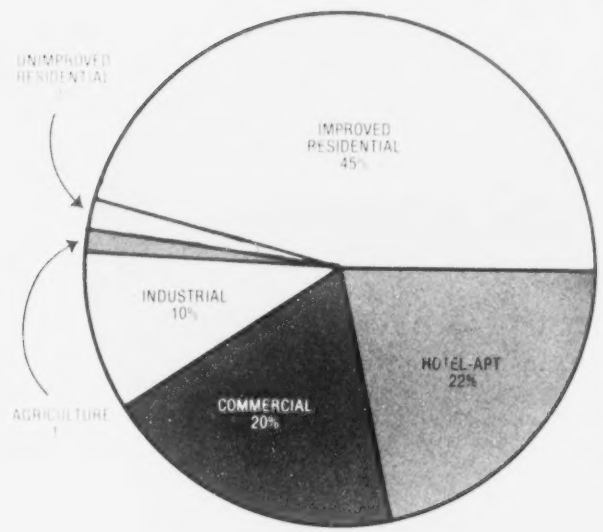
Land Use Classes	Land	Building	Total	Land & Bldg. Ratio L	B	% of Total
I. Improved Residential	$ 204,449	$ 102,228	$ 306,677	67	33	26
II. Hotel/Apartment	71,143	172,393	243,536	29	71	20
III. Commercial	45,450	55,921	101,371	45	55	9
IV. Industrial	24,909	37,722	62,631	40	60	5
V. Agricultural	340,626	65,906	406,532			34
VI. Conservation	21,356	1,232	22,588			2
VII. Unimproved Residential	43,470	4,568	48,038			4
TOTAL	$ 751,403	$ 439,970	$1,191,373			100

KAUAI

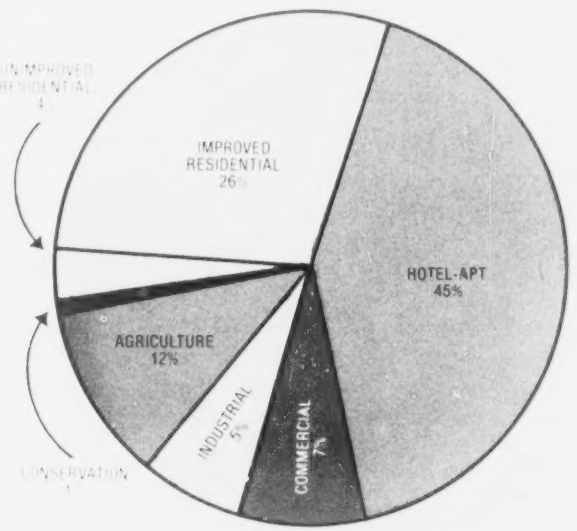
I. Improved Residential	$ 128,898	$ 69,036	$ 197,934	65	35	37
II. Hotel/Apartment	67,460	98,839	166,299	41	59	31
III. Commercial	26,119	24,187	50,306	52	48	9
IV. Industrial	7,034	12,402	19,436	36	64	4
V. Agricultural	43,312	10,440	53,752			10
VI. Conservation	10,152	1,041	11,193			2
VII. Unimproved Residential	33,297	3,243	36,540			7
TOTAL	$ 316,272	$ 219,188	$ 535,460			100

REAL PROPERTY
NET TAXABLE ASSESSED VALUE LAND USE CLASSES

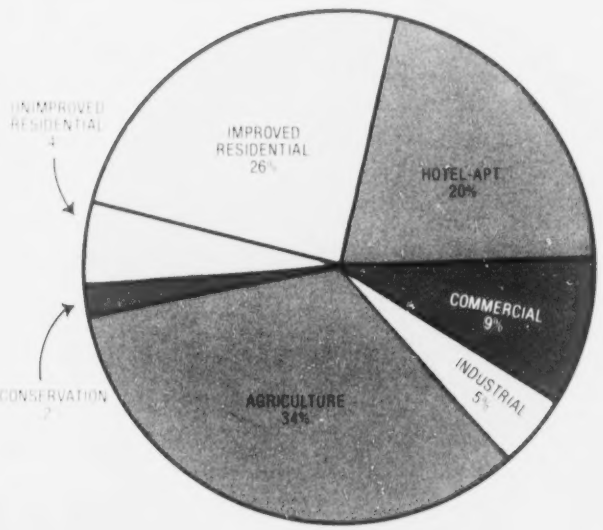
CITY & COUNTY OF HONOLULU
$9,404,212,382



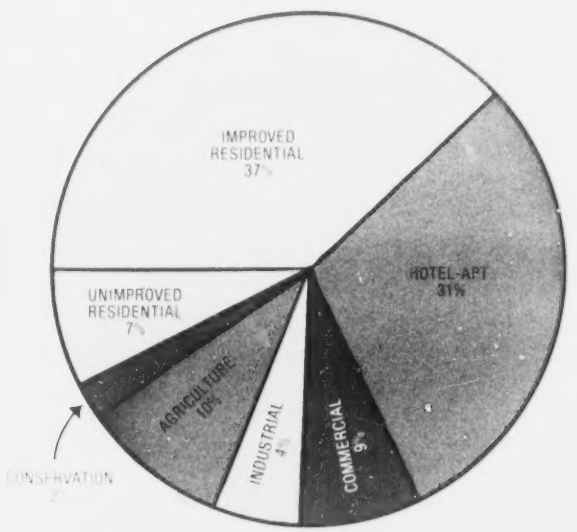
COUNTY OF MAUI
$1,777,127,282



COUNTY OF HAWAII
$1,191,372,743



COUNTY OF KAUAI
$535,459,934



REAL PROPERTY TAX RATES FOR EACH TAXATION DISTRICT BY LAND USE CLASS, FISCAL YEAR 1979-1980

Category	Class		Tax Rate Per $1,000 Net Taxable Building*	Tax Rate Per $1,000 Net Taxable Land
OAHU DISTRICT				
I	1	Improved Residential	$15.23	$15.23
	5	Agricultural	15.23	15.23
	6	Conservation	15.23	15.23
II	2	Hotel/Apartment/Resort	14.60	16.22
	7	Unimproved Residential	14.60	16.22
III	3	Commercial	14.65	16.27
IV	4	Industrial	14.20	15.79
MAUI DISTRICT				
I	1	Improved Residential	$ 6.47	$ 6.47
	5	Agricultural	6.47	6.47
	6	Conservation	6.47	6.47
II	2	Hotel/Apartment/Resort	6.17	6.86
	7	Unimproved Residential	6.17	6.86
III	3	Commercial	6.05	6.72
IV	4	Industrial	6.12	6.80
HAWAII DISTRICT				
I	1	Improved Residential	$17.90	$17.90
	5	Agricultural	17.90	17.90
	6	Conservation	17.90	17.90
II	2	Hotel/Apartment/Resort	17.15	19.05
	7	Unimproved Residential	17.15	19.05
III	3	Commercial	17.05	18.95
IV	4	Industrial	17.15	19.05
KAUAI DISTRICT				
I	1	Improved Residential	$14.50	$14.50
	5	Agricultural	14.50	14.50
	6	Conservation	14.50	14.50
II	2	Hotel/Apartment/Resort	13.74	15.27
	7	Unimproved Residential	13.74	15.27
III	3	Commercial	13.71	15.23
IV	4	Industrial	13.94	15.49

Building tax rates at 90% of land tax rates for Classes 2, 3, 4, and 7, only one tax rate for Classes 1, 5 and 6.

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/80

	Training Course	No. of Employees	Hours of Training
1.	Clerical Seminar	29	232
2.	The New Federal Bankruptcy Code	2	16
3.	Coping With Stress	11	176
4.	Defensive Driving	5	40
5.	Data Processing Concepts	6	72
6.	First Aid Training	13	104
7.	1979 Hawaii Tax Institute	12	480
8.	IRS Annual Tax Practitioner Institute	12	96
9.	Income Technical Training	71	497
10	Income Tax Research Seminar	27	27
11.	199 Tax Measures	97	388
12.	EEO/Affirmative Action, Collective Bargaining, and the Merit Principles in Hawaii's State and Local Government	7	56
13.	Affirmative Action Seminar	2	16
14.	Survival Strategies for Middle Managers	2	16
15.	1979 Hawaii Congress of Planning Officials	2	32
16.	Time Management	2	32
17.	Introduction to the State of Hawaii Executive Budget System Seminar	2	32
18.	Systematic Assertive Skills for Managers	1	16
19.	The Legislative Process	11	33
20.	Meeting the Public	6	96
21.	Hawaii and the Contemporary Pacific Symposium	3	9
22.	Taking Your Own Dictation	1	8
23.	Sample Survey Techniques	3	90
24.	Uniform Guidelines on Employee Selection Procedures	1	12
25.	Creative Problem Solving	1	16
26.	Introduction to Economics	1	8
27.	Listening and Memory Development	4	64
28.	Report Writing I	8	128
29.	Report Writing II	1	16
30.	Hawaii Administrative Procedure Act	5	15
31.	Role of Mini-Computers in Government	4	32
32.	The New Statement of Principles of Reporting for State and Local Government	3	9
33.	Economic Opportunities from the Ocean	2	16
34.	Your Attitude is Showing	3	9
35.	Management Through Strength Recognition	3	6
36.	On-The-Job Training	2	16
37.	Seminar on Organizational Effectiveness	2	80
38.	New Employee Orientation	10	25
39.	Effective Letterwriting	5	80
40.	Pre-Retirement Orientation	15	240
41.	Using the Prentice-Hall Federal Tax Service	49	74
42.	Management of Conflict	1	8

(continued)

	Training Course	No. of Employees	Hours of Training
43.	Selection Interviewer's Workshop	1	8
44.	Supervisory Management Course I	2	40
45.	Effective Public Contact	2	32
46.	Accelerated Reading Workshop	8	64
47.	Basic Public Speaking	1	8
48.	Management Looks at Human Values	2	16
49.	Security Measures for IRS Reports	15	30
50.	EEO for Everyone	1	8
51.	Business Faces the '80s & '90s	2	16
52.	Fifth Annual Financial Seminar	3	48
53.	IRS Continuing Professional Education	19	228
54.	Fundamentals of Data Processing for the Non-Data Processing Executive	2	48
55.	Workers' Compensation Workshop	1	4
56.	1980 Conference of Civil Service Commissioners and Personnel Directors	1	24
57.	HSCPA 20th Annual Conference	1	8
58.	Cardio-Pulmonary Resuscitation	2	8
	TOTALS	519	4,998

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1979

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235 Sec. 235-1 to 235-119	The Income Tax Law, adopted with certain exceptions the provisions of the Internal Revenue Code of 1954, with amendments to December 31, 1978, in the determination of gross income, adjusted gross income, ordinary income and loss, and taxable income. The law allows $750 personal exemption for individuals (double exemption for those over 65 years or over), $7,000 for a blind, deaf or totally disabled taxpayer, $400 for an estate, $200 for a simple trust and $80 for a complex trust. Tax rates for individuals are: 2.25% on first $500; 3.25% on next $500; 4.5% on next $500; 5% on next $500; 6.5% on next $1,000; 7.5% on next $2,000; 8.5% on next $5,000; 9.5% on next $4,000; 10% on next $6,000; 10.5% on next $10,000; 11% over $30,000. Tax rates for head of household are: 2.25% on first $500; 2.75% on next $500; 3.9% on next $500; 4.1% on next $500; 5.5% on next $1,000; 6.6% on next $2,000; 7.9% on next $5,000; 9.15% on next $10,000; 10.05% on next $10,000; 10.5% on next $10,000; 10.75% on next $20,000; 11% over $60,000. Tax rates for corporations are: 5.85% up to $25,000; 6.435% over $25,000.	Returns due 20th day of 4th month after close of taxable year. Withholding returns due monthly on or before the last day of the succeeding calendar month. When the total tax liability is less than $500 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before January 31 of each year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general at time of filing returns. Estimates of individuals one-quarter April 20th, June 20th, September 20th, and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate Chapter 236 Sec. 236-1 to 236-44	Tax on shares of net estate having situs in Hawaii. Exemptions (a) Bequests to spouse $100,000; (b) parent, child, grandchild, or adopted child $50,000; (c) bequests to others $5,000. Tax rates: (a) 2% to 7%; (b) 3% to 8%; (c) 3% to 10%, respectively. Estate tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The personal representative or trustee of the decedent's estate shall file a return.	Payments within 18 months after death.
(3) General Excise (Gross Income) Chapter 237 Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents, and solicitors who are taxed at 15%. A license must be secured and renewed annually on a calendar year basis. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $500 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before three months and twenty days after the end of taxpayer's calendar or fiscal year.	At time of filing returns.
(4) Use Chapter 238 Sec. 238-1 to 238-10	This is an excise tax which applies on the purchase price or value of tangible personal property, imported or purchased from anyone not taxable under the general excise tax, for resale, use or consumption. Rates: ½ of 1% if for resale at retail; 4% if for use or consumption. For exception to certain property used by producers, see Sec. 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $500 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual return is due on or before three months and twenty days after the end of taxpayer's calendar or fiscal year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Public Service Company Chapter 239 Sec. 239-1 to 239-10	Nature of Tax. (1) Public utility business in lieu of general excise and real property taxes. (a) Measure of assessment: general rule. Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: if ratio of net to gross income is 15% or less, 5.885% for each 1% increase in ratio of net to gross, rate increase .2675% of 1%. (2) Airline, motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment: general rule. Gross income from airline, motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sec. 239-9. (b) Rate: 4% of gross income, except airlines having special fare schedule for students, 3% of gross income.	Returns filed on or before April 20th.	First installment at time of filing return on or on or before April 20. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(6) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241 Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations and small business investment company not subject to taxes imposed by Chapters 235 and 237. (For industrial loan company and small business investment companies exemption under Chapter 237 (gross income tax). (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or 20th of fourth month after close of fiscal year.	First installment at time of filing return or on or before 20th of 4th month. Other installments on 20th of 2nd, 5th and 8th months thereafter.
(7) Fuel Chapter 243 Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 12¢ to 13½¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes of from 11¢ to 12½¢ per gallon on diesel oil and from 8¢ to 9¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates on Form M-38.[1] Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(8) Liquor Chapter 244 Sec. 244-1 to 244-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of succeeding calendar month.	At time of filing returns.
(9) Tobacco Chapter 245 Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of succeeding calendar month.	At time of filing returns.
(10) Real Property Chapter 246 Sec. 246-1 to 246-63 Chapter 248 County Budgets	(1) Date of Lien: July 1. (2) Measure of Assessment: (a) Fair market value at highest and best use assessed to owner or owners; (b) Building replacement less depreciation. (3) Categories: Category I (a) improved residential; (b) agricultural; (c) conservation; Category II (d) unimproved residential; (e) hotel and apartment; Category III (f) commercial; Category IV (g) industrial. (4) Rates: (a) separate land and building rates for each category, except in Category I; (b) each category produces pro rata share of total tax requirement; (c) building tax factor for Category II, III, and IV in 1979 is 90%. (5) Tax rates for each county shall be adopted on or before June 20 preceding the tax year. (6) Minimum real property tax, $7 per year.	The deed shall have been recorded and exemption claims must be filed on or before December 31. Notice of Assessment mailed to taxpayer by March 15 preceding the tax year. Appeals must be filed on or before April 9.	Tax bills mailed by July 20. Payable in two installments: August 20 and February 20.
(11) Conveyance Chapter 247 Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383 Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employers of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. The employer's total contribution rate will not be less than 0% or greater than 4.5%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431 Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%; Foreign 3.197%; 4.68% on Surplus Lines, Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance Domestic 2.9647%; Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.[2]	Statement Filed on or before March 15 with the Insurance Commissioner.	Tax payable on or before March 15 to Insurance Commissioner.

[1] Increase from 3½¢ to 6½¢ per gallon, effective date pending certification by the U. S. Department of Energy.

[2] See Act 144, 1978, relating to increase in premium rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.